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NAVY'S PLAN TO MOVE FROM LEASED SPACE TO THE WASHINGTON NAVY YARD

HEARING

BEFORE THE

SUBCOMMITTEE ON MILITARY CONSTRUCTION

OF THE

COMMITTEE ON ARMED SERVICES UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

SEPTEMBER 30, 1981

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NAVY'S PLAN TO MOVE FROM LEASED SPACE TO THE WASHINGTON NAVY YARD

WEDNESDAY, SEPTEMBER 30, 1981

U.S. SENATE,
SUBCOMMITTEE ON MILITARY CONSTRUCTION,
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met in open session at 9:10 a.m., in room 212, Russell Senate Office Building, Senator Strom Thurmond (chairman) presiding.

Present: Senators Thurmond, Warner, Byrd.

Also present: Representative Frank R. Wolf.

Staff present: James F. McGovern, general counsel; James C. Smith, professional staff member; and Marie Fabrizio Dickinson, staff assistant.

Also present: Buzz Hefti, assistant to Senator Warner; Robert Nichols, assistant to Senator Jackson; Frank Krebs, assistant to Senator Cannon; Gray Armistead, assistant to Senator Byrd; Greg Pallas, assistant to Senator Exon.

OPENING STATEMENT BY SENATOR STROM THURMOND, CHAIRMAN

Senator THURMOND. The committee will come to order.

The purpose of our hearing this morning is to examine the Navy's long-range proposal to move from leased space in the National Capital region into renovated space at the Washington Navy Yard.

I realize that planning for this move is somewhat premature; however, the consequences of the move, if executed, would be far reaching for both the Navy and the people of the Washington metropolitan area.

The Navy is at the point where expenditures for design of the Navy Yard facilities need to begin if the plan is to proceed. I would hope that this hearing will provide the information to provide a basis for a committee determination as to whether or not the Navy should proceed.

We have three agencies prepared to testify today. The Navy will outline its plans for relocation to the Navy Yard. GSA will discuss its general leasing situation in the National Capital region and the impact that the Navy's plans may have on GSA programs. Finally, we have asked a representative of the Metropolitan Washington Apartment & Office Building Association to give us some data from the perspective of private industry.

I would expect that there might be widespread interest in this subject, so I will leave open the record of this hearing for a period of 7 days so that any interested party who may wish to provide information to be considered for inclusion in the record may do so.

We will begin with the Navy. Mr. Chapman Cox, the Deputy Assistant Secretary of the Navy for Logistics, is their primary witness. Mr. Cox, we welcome you. Please, introduce those accompanying you, and then you may proceed.

I want to say that there has been a leadership meeting called at the White House and I am going to have to leave. So, I am going to request the ranking majority member who is here this morning, the distinguished Senator from Virginia, Senator Warner, to preside. We are also very pleased to have the able and distinguished Senior Senator from Virginia, Senator Harry Byrd, Jr.

Senator WARNER. Mr. Chairman, we have a Member of the House of Representatives here, Congressman Frank Wolf.

Senator THURMOND. Mr. Wolf, we are delighted to have you with us too, and I am sure that Senator Warner will give you an opportunity for a statement and questions, if you care to do so.

Senator Warner, if you would now take the chair, I would appreciate it.

Senator WARNER. Thank you very much, Mr. Chairman.

Senator BYRD. Would you yield to me just a moment?

Senator WARNER. Yes, indeed.

Senator BYRD. Before Senator Thurmond leaves, may I thank Senator Thurmond for calling this meeting and making it possible to bring out all the facts on this very important matter.

Senator THURMOND. Thank you very much, it is a pleasure.

Senator WARNER [presiding]. My opening statement will be very brief, gentlemen.

This matter came to my attention, I must say, somewhat inadvertently in that as members of this Subcommittee on Military Construction we have followed a procedure here for some time whereby we approve on a pro forma basis requests for authorization to spend moneys—less than $250,000—for design purposes.

Quite frankly, the bulk of those approvals are handled at the staff level and the members of this subcommittee, and other members of the committee as a whole, will pass on them primarily based on staff recommendation.

I want you to clarify for me the fact that in April we received several requests under this threshold limit without, in my judgment, a very clear and detailed explanation to the Senate that these small pieces were indeed part of a larger plan to expand facilities at the Washington Navy Yard. So, that is my first concern here.

My second is whether or not your proposal is in fact the most desirable, given the constraints of money—the desperately needed money for shipbuilding and other hardware programs in the U.S. Navy. Then, I am concerned about the environmental impact.

The greater Washington metropolitan area is today, as you well know, constrained by bridges, traffic problems, subway problems, and we are considering the moving of upward of 18,000 people from a location in northern Virginia to a location at the Navy Yard which, although it is projected it will be served by the subway and other transportation means, at the present time the primary means of transportation is by automobile.

So, those are my concerns. It is ironic that I made the decision in 1970 to tear down the old temporary buildings on Constitution Avenue

and move the Navy over to the Crystal City area, and here I sit, presiding over the hearing considering moving it back again; I find it slightly ironic.

Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Let me say, it is a pleasure to welcome the Navy's representative, Mr. Cox, here today. I am wondering if we have a representative from the Army here. It seems to me that we should have. As I understand it, the relocation proposal we are about to discuss would move about 18,000 personnel—or about the equivalent of one Army division—in and out of Washington during rush hour each day.

The Army is used to handling logistical problems like that, but I do not know that area transportation officials are. So, that is why I think it might be well to have a representative of the Army here today.

But we are glad to have you, Mr. Cox. I have a few questions that I would like to ask you after your presentation.

Senator WARNER. Senator Byrd, as you know, the record will remain open, and if necessary, we will have additional witnesses if testimony indicates to us we should explore other areas.

Senator BYRD. Very good.

Senator WARNER. We are joined this morning, at the invitation of the chairman of the committee, by Mr. Frank Wolf, a Member of the House of Representatives from northern Virginia, Mr. Wolf?

Mr. WOLF. Thank you, Senator. I have a brief statement, if I can make it at the outset.

I appreciate the opportunity to comment briefly this morning concerning the Department of Navy proposal to move 18,500 of its employees from space now occupied in Crystal City, Ballston, and Rosslyn, Va., to the Washington Navy Yard. You and your colleagues should be commended for your interest in this matter. I welcome this chance to hear from the witnesses that are scheduled to speak here today.

I do have strong reservations about the Navy's proposal, not just because of its obvious impact on the northern Virginia area which would be significant, but because to date I do not believe the Navy has made a good case for the move.

It is my understanding that the Navy is proposing to spend $280 million over the next 8 years to build 2 new buildings and renovate 13 others at the Washington Navy Yard in order to accommodate its employees now housed elsewhere. Given the often professed need for real improvement of naval fighting power, the Navy has a difficult burden to meet to justify spending this amount of money on new office space.

Based upon the information I have received thus far about the Navy's proposal, I am concerned over whether or not the Navy's assumptions regarding this project are realistic.

I hope the subcommittee will take a very close look at the projected construction costs, local lease cost estimates, contractor operating costs that may be incurred as a result of the proposed move; the likelihood that sufficient public transportation will be available and the increased traffic congestion across the Potomac River bridges and the Southwest Freeway that may result from this proposal. It is appropriate for

the subcommittee to question whether new Navy offices or more ships should be the more pressing national priority.

I also urge the subcommittee to consider the many benefits the Navy now enjoys at the space it occupies in Arlington. Benefits like proximity to National Airport, the Pentagon and the Navy Annex, availability of ample office space for Navy contractors, access to amenities like restaurants, shopping and hotel accommodations; and over 8,000 residential units now available to Navy employees.

I am confident that this proposal will be thoroughly reviewed and that all of the available options will be carefully explored and evaluated before any decision is made.

Again, Mr. Chairman, I thank you for holding these hearings.

Senator WARNER. Thank you for joining us. At this time I would also like to include for the record a statement by the Hon. Stanford E. Parris, 8th District, State of Virginia, and remarks by Mr. Stephen Detwiler, chairman of the Arlington County Board, Arlington, Va.

[The prepared statement of Hon Stanford E. Parris and Mr. Stephen Detwiler, follow:]

PREPARED STATEMENT OF STANFORD E. PARRIS

Mr. Chairman. Thank you for allowing me the opportunity to express my displeasure with the Navy Department's proposal for construction at the Washington Navy Yrad.

The Navy will be asking Congress for $272 million in military construction funds to build office space at the Washington Navy Yard and at the adjoining area known as the Federal Center, South-East. The estimated cost is much higher than originally anticipated. The Navy has argued that construction costs will be recovered within 12 years but I do not feel this is the appropriate time to engage in such an undertaking. The Administration and Congress have made some very difficult budget reductions and more cuts will be considered in the near future. It is anticipated that some reductions will also be made in defense spending, coming at a time when the Soviet Union is undertaking a massive arms build up. For this reason, this construction project at this time, is unwise.

For several years, the Navy has been moving personnel to various locations outside the downtown area. Just eight or nine years ago, buildings used by the Navy on Constitution Avenue were torn down and personnel were sent off to space leased in Northern Virginia. Now the Navy is proposing a costly renovation and expansion project at the Navy Yard which will force about 18,000 additional people to fight Washington's rush hour traffic. I believe it would be more advantageous for the Navy to continue disbursing personnel throughout the Washington area.

As we are all aware, Washington's rush hour traffic is already intolerable. Each rush hour, there are bottlenecks at every major intersection and back-ups on area bridges. If the renovation and expansion are allowed to take place, we would be adding too much of a burden to an already inadequate transportation system. I'm told that the traffic congestion will be even more severe in the immediate area of the Yard itself. Its true that a subway station may some day be built near the Navy Yard but that is off in the distant future. In fact, funding has not yet been obtained to begin that construction.

I'm also very much concerned with the manner in which the Navy developed and announced its plan. The District of Columbia planning officials were among the last to be notified of the proposal. I have been told that it wasn't until after the Navy held a Congressional briefing that District officials were even aware that major construction was being considered. I think it would have been appropriate for the Navy to work closely with the District on a project of this magnitude.

It seems to me that more desirable options must be available. I strongly urge my colleagues to oppose implementation of the proposed construction project until all feasible alternatives are explored in detail. Otherwise, we would be requiring 18,000 Washington area residents to join the frustrating experience of commuting in rush area traffic. I oppose this proposal and I urge the Navy to continue the policy of disbursing personnel to outlying areas.

PREPARED STATEMENT OF STEPHEN DETWILER

Mr. Chairman, I am Stephen Detwiler, chairman of the Arlington County board. I would like to take the opportunity this morning to present you with a number of arguments for the Navy remaining in leased office space in northern Virginia. Although a strong case can be made for the Navy remaining in Arlington with respect to the impacts on our local economy, those impacts are not your direct concern, and therefore, I would like to present you with a case for the Navy remaining with respect to the advantages to the Navy and the Federal Government.

The first is convenience. Nearly 18,000 employees of the Navy are located in northern Virginia in leased office space. Of that total, 75 percent occupy over 2,000,000 square feet of private office space in Crystal City. There is no question that the Navy would benefit from a consolidation of facilities in terms of their own communication and coordination. However, this can be easily achieved in the Crystal City area if the Federal Government were to consider a consolidation of the total leased Navy space to Crystal City. This would necessitate a move of only 3,000 of the existing 18,000 employees, and the 700,000 square feet of space required for that move could easily be accommodated in the over 5,000,000 square feet of office space that is under construction and approved in the Crystal City area. In addition, the Crystal City location is extremely convenient to the Pentagon, with its 30,000 employees two metro stops removed from Crystal City, and the Navy annex, 1,000,000 square feet of space with over 6,000 Navy employees, one mile from Crystal City. Adding to these advantages you have the location of Crystal City literally at the front door of Washington National Airport—a major convenience not only for the Navy but also for private corporations doing business with the Navy.

As important as the consolidation issue is, I would like you to consider for a moment the support that has been provided to the Navy by Arlington and the development community over the past decade. In addition to the 2,000,000 square feet of office space occupied by the Navy in Crystal City, there is an additional 4,000,000 square feet in place. Much of this space occupied by contractors and other companies doing business with the military. This is a major resource which not only exists but is being built upon, and added to, with over 5,000,000 square feet of new space under construction or approved. In addition, there is a major housing inventory of over 8,000 dwelling units available to Navy employees within walking distance of Crystal City. Add to this another 7,000 units under construction or approved and you have a significant resource—a social benefit that I believe is unmatched by any other location being considered. To meet the needs of those persons visiting and doing business with the Navy, we have in place over 2,000 hotel rooms in the Crystal City area with an additional 1,000 rooms to be opened within a year and another 3,000 that have been approved and await construction. Within the 700,000 square feet of retail and service commercial space in Crystal City, there are now located over 40 restaurants with numerous additional shops for the convenience and service to employees in the Crystal City area.

In addition, an 850,000-square-foot regional shopping center has been approved and is planned to be constructed as a part of the Pentagon City development, a short subway stop from Crystal City, within walking distance of much of the existing naval space. I have not been able to obtain comparable figures for supportive development and services in the area of the Navy yard. However, I would be very much surprised if the Navy yard location could even approach the levels of support and service found in the Crystal City area. What you have, gentlemen, is clearly a case of a local government and development community that has been responsive to the needs of the Navy over the past decade. We consider the Navy to be a valued tenant and good neighbor.

My final remarks address the question of cost savings, as those savings relate to the proposed move. As I stated earlier, certainly if you are to consider the need for a consolidation of Navy space, it would be far more cost effective to relocate 25 percent of the existing personnel to the Crystal City area as opposed to relocating the total 18,000 employees to an alternate location. Beyond that savings, however, I would like to illustrate the magnitude of the proposed Navy move. From the material that we have been given, the proposed move over a five-year period starting in fiscal year 1983, would cost $271,000,000. This is nearly 17 percent of the total five-year capital improvement program for Federal facilities in the Washington region. In fact, the total of all naval capital construction in the approved 5-year regional plan, starting in fiscal year 1982, is only $84,000,000. The proposed construction and rehabilitation of space in the naval yard is not even considered in the five-year capital program approved by the National Capital Planning Commission in June of this year. I would think

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that in this period of national concern for the Federal economy that serious thought should be given to even the consideration of such an expenditure over the next six years. As significant as the $271 million dollar figure is, I believe that we can safely assume that it is a conservative estimate of the actual cost of such a move, producing by the Navy's original estimate, a marginal saving/investment ratio of 1.13 to 1, barely justifying the expenditure.

However, I now understand that the newest estimate provided by the Navy shows a more favorable ratio of 1.36 to 1. Where the new savings were obtained is not clear to me given that additional costs which are likely and have been the history of virtually all Federal construction could easily produce a negative savings/investment ratio for the move. This would certainly be the case if the full value of the presently under utilized Navy yard was considered in the analysis. The Federal Government's profit on a lease or sale of this property would be quite handsome, very likely producing revenues in excess of costs in the analysis. In addition, you should consider that the true costs of such a proposal often overlook the continued costs of maintenance and building depreciation (now borne by the landlords) and the costs of providing transportation and other required off site public improvements. In leased space, which is not tax exempt, there is a direct tax benefit to local governments to provide these improvements and services. My fear is that with development on the tax exempt Navy land, you will be asked for additional Federal funds beyond the 271 million dollars, to provide off site access and other public improvements to serve the proposed installation.

Thank you for the opportunity to present these remarks to you this morning and once again, I would like you to know that we in Arlington value the Navy as a tenant and a good neighbor and that we have been working and will continue to work to provide the facilities and support services for the Navy in their Arlington home.

Thank you very much.

Senator WARNER. Mr. Cox, we will ask you to proceed now. Bearing in mind that Senator Byrd and I are expected to attend another hearing of the full Armed Services Committee at 10:45. If possible, we would like to try and confine this hearing to that period.

Your statements—that of yourself and other witnesses—will be submitted for the record in their entirety and we hope that you will raise the highlights.

[The prepared statement of Hon. Chapman Cox follows:]

PREPARED STATEMENT OF CHAPMAN COX, DEPUTY ASSISTANT SECRETARY OF THE NAVY (LOGISTICS)

Mr. Chairman, I am pleased to have the opportunity to appear before the Committee today to discuss Navy's planning process for the prospective relocation of its administrative offices in the National Capital Region. The move which we are studying involves approximately 2.9 million square feet of leased office space currently occupied by Navy (Exhibit 1).

MOTIVATION OF INITIATIVE

The driving force behind this study and planning process has several sources. First, over the past few years pressure from Congressional oversight committees to move out of leased space has increased. S. 533, Ninety-seventh Congress, (which passed 93–0 on May 6, 1981) and H.R. 1938 are illustrations of the bipartisan sentiment in the Congress for a strong government policy against leasing and in favor of housing Government offices in publicly owned buildings. Second, the General Accounting Office report of October 17, 1979, concluded that direct Federal construction has a more favorable long-term budgetary impact than leasing. Third, Department of Defense Directives state that leases for long term space requirements will not be entered into since such arrangements are inefficient and uneconomical. The current administration has reaffirmed this policy. Finally, lease costs for office space in the Capital Region have risen dramatically in recent years. Average office rental rates doubled between 1975 and 1980; and are expected to double again by the mid 1980's.

PRELIMINARY ANALYSIS

In view of these persuasive influences and the fact that many of its office leases will be expiring within the next five years, Navy commenced a study of

more cost effective office housing alternatives. Four basic alternatives were identified: (1) purchase existing office buildings; (2) purchase land and construct new buildings; (3) construct new buildings on land already owned; and, (4) alter and renovate existing, underutilized buildings.

Our preliminary studies indicated that alternatives (1) and (2) would be the more expensive, and had the added disadvantage of adversely impacting on a local government's tax base. On the other hand, our analysis showed that option (4) probably would have a distinct cost advantage over all of the other options because it offered the opportunity to benefit from the Government's capital investment in existing structures. Our preliminary studies also showed that the preferred site for relocating Navy's headquarters offices would be the Washington Navy Yard/Southeast Federal Center (WNY). Various land use planning studies were then commenced and, after preliminary confirmation of economic and engineering feasibility, first phase MILCON projects were developed.

CONGRESSIONAL INTEREST

On July 27, 1981, after receiving notice of Navy's intentions, some Congressmen and Senators expressed concern about Navy's planning process and requested Navy to defer contracting for design services until this hearing could be held. During the intervening two months we have been involved in three tasks, hopefully, to make our contribution to this hearing more constructive. First, we have documented our earlier Alternate Site Study, copies of which have been provided to your staff.

Second, we negotiated an understanding with the General Services Administration concerning the transfer to Navy of a portion of the Southeast Federal Center. Of course, such understanding is conditioned upon (1) Navy's receiving necessary oversight approvals of the plan, and (2) a final site decision after completion of the necessary Environmental Impact Study. Acquiring this additional adjacent land and buildings is important to preserving the integrity of the total plan. However, the land which GSA has offered us is different from that initially anticipated. This difference required modification of the development plan.

The third task was to re-evaluate our development plan in view of three new factors:

(1) The different physical and economic features of the proposed GSA transfer;

(2) Indications that your committee desired more flexibility in the planning process to permit more oversight and cause less negative economic and administrative impact of a potential down stream decision to scuttle subsequent phases of the plan; and

(3) Realization that earlier renovation of certain buildings would result in larger savings in earlier years.

This re-evaluation resulted in a modification of the development plan and redefinition of the phases of development. Therefore, we intend, subject to the outcome of this hearing, to issue revised Section 612 design notices, which will be consistent with the revised development plan.

ALTERNATE SITE STUDY

Before discussing the development plan in more detail, please let me say a few words about the Alternate Site Study. The study initially looked at sixteen sites in the Capital Region, as listed on Exhibit 2, plus two alternatives: (1) maintaining the status quo, and (2) purchasing existing buildings in Crystal City. Our first screening test was developable acreage. Six sites were eliminated due to insufficient acreage. They were Arlington Hall, Cameron Station, Fort McNair, Fort Myer, Naval Security Station, and the Navy Annex.

The balance of the alternatives were rated on two scales: (1) cost, and (2) criteria other than cost. The criteria other than cost are listed on Exhibit 3. A fairly standard weighting system (shown on pages 22 and 23 of the Alternate Site Study) was used. Of course these criteria involve subjective factors and are subject to wide ranges in relative weight depending upon the perspective of the evaluator. However, it does not appear that reasonable alterations of the relative weighting factors would cause a substantial change in the evaluation result.

The non-cost factor evaluation ranked the WNY site highest. However, four other sites, shown in Exhibit 4, also had high ratings. These were: Maintaining the Status Quo, purchasing Crystal City, constructing new buildings near the Pentagon, and relocating to White Oak.

The cost factor evaluation was independently developed, and based on uniform estimating criteria. The cost of the status quo was computed using current cost

to government until existing leases expire, and projected market rental rates thereafter. The methodology used to make these computations is set forth in detail in our Economic Analysis, copies of which have been provided to your staff. A summary of the analysis is presented as Exhibit 5. Estimated relocation, site development and design costs were included for all sites except status quo and purchase of Crystal City.

As you can see, the WNY site has a distinct cost advantage. This cost advantage results from ownership of the land and existence of approximately 2 million gross square feet of space in underutilized or vacant buildings at the site. These buildings can be converted to administrative office space at a cost of $20 to $40 per square foot less than new construction.

The study concludes that, considering both cost and non-cost criteria, the WNY site is the preferred alternative.

Recognizing the subjective nature of the rating system for criteria other than cost, and recognizing that the study group did not have sufficient data available to analyze the impact of relocation on the home-to-work travel of affected employees, the study recommends that the final decision regarding site selection be deferred until an Environmental Impact Study can be completed. Therefore, the Navy is now in the process of contracting with an architect-engineer firm to conduct the necessary Environmental Impact Study. The study will evaluate impacts not only at WNY but also at the Pentagon, Crystal City and White Oak. In addition, the Environmental Study effort will include a detailed traffic analysis which will deal specifically with the issues of potential increases in commuter time and traffic congestion. We are in a position to issue a Notice-to-Proceed to the contractor within two months, in which case we would receive the firm's traffic report prior to the FY83 MILCON hearings. The draft Environmental Impact Study would be completed in July of next year.

THE DEVELOPMENT PLAN

Because some of the leases in question will expire in the near term and we desire to achieve cost savings at the earliest possible time, Navy has budgeted the first phase of construction in fiscal year 1983. In order to do so, the design acquisition process for fiscal year 1983 projects should begin within 30 days.

Our revised plan is shown in Exhibits 6 and 7. Exhibit 6 contains essential design elements, access, and circulation. Exhibit 7 is the phasing plan. We envision a five year construction program, beginning with approximately a $17 million investment in fiscal year 1983, and totaling approximately $280 million over 5 years (stated in constant fiscal year 1983 dollars). Our construction phasing is predicated on several objectives, including: (1) satisfying Command space requirements; (2) maintaining Command integrity during and after the relocation; (3) optimum utilization of available existing Government owned buildings; (4) optimum utilization of existing Government leases; (5) obtaining earliest payback on investment; and (6) phasing the development to minimize negative economic and administrative impact of potential disapproval of later phases. The fiscal year 1983 program includes the following projects:

Building alterations	$14,200,000
Public works facilities	1,200,000
Electrical distribution improvements	1,700,000
Total	17,100,000

A 35-percent design status can be achieved for these projects by June 1982. The environmental study will be conducted concurrently, permitting a final site selection decision to be made by the Secretary of the Navy after environmental impacts have been fully evaluated. The first construction contracts could then be awarded upon completion of design early in the spring of 1983. This is about halfway through the fiscal year in question and would permit occupancy of the first phase buildings in calendar year 1985.

In view of the extensive budget reviews in progress, we must at this time be somewhat tentative as to follow-on phases. Our planning takes this uncertainty into account. The first phase is an independently viable program; it does not depend upon follow-on construction; and it would be desirable, economically and administratively, irrespective of action on subsequent phases.

In summary, our planning to date is predicated on our desire to operate in as efficient and economical manner as possible. Simply stated, the economics of rising lease costs dictate that we seek a more cost effective means of providing administrative office space.

Thank you, Mr. Chairman.

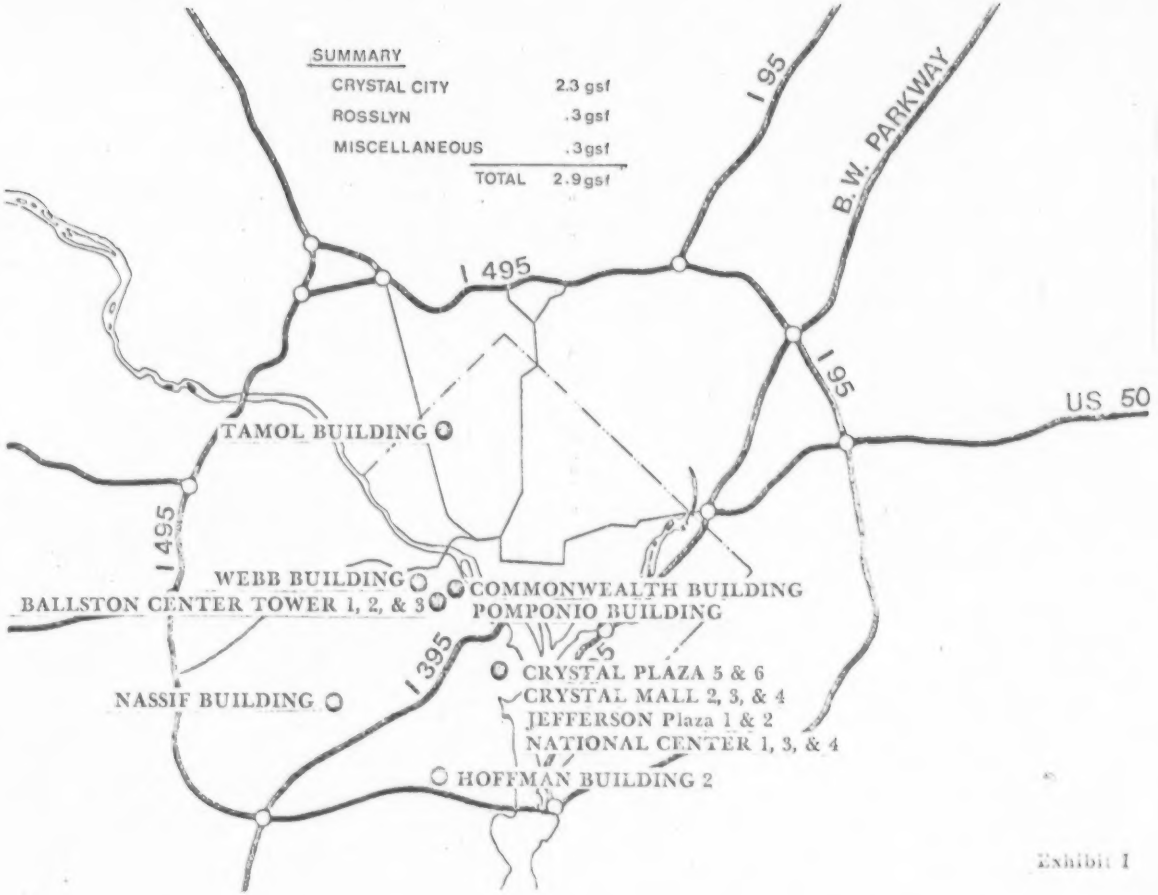

SUMMARY
CRYSTAL CITY 2.3 gsf
ROSSLYN .3 gsf
MISCELLANEOUS .3 gsf
TOTAL 2.9 gsf
I 95
B.W. PARKWAY
I 495
I 95
US 50
TAMOL BUILDING
I 495
WEBB BUILDING
BALLSTON CENTER TOWER 1, 2, & 3
COMMONWEALTH BUILDING
POMPONIO BUILDING
I 395
CRYSTAL PLAZA 5 & 6
CRYSTAL MALL 2, 3, & 4
JEFFERSON Plaza 1 & 2
NATIONAL CENTER 1, 3, & 4
NASSIF BUILDING
HOFFMAN BUILDING 2

Exhibit I

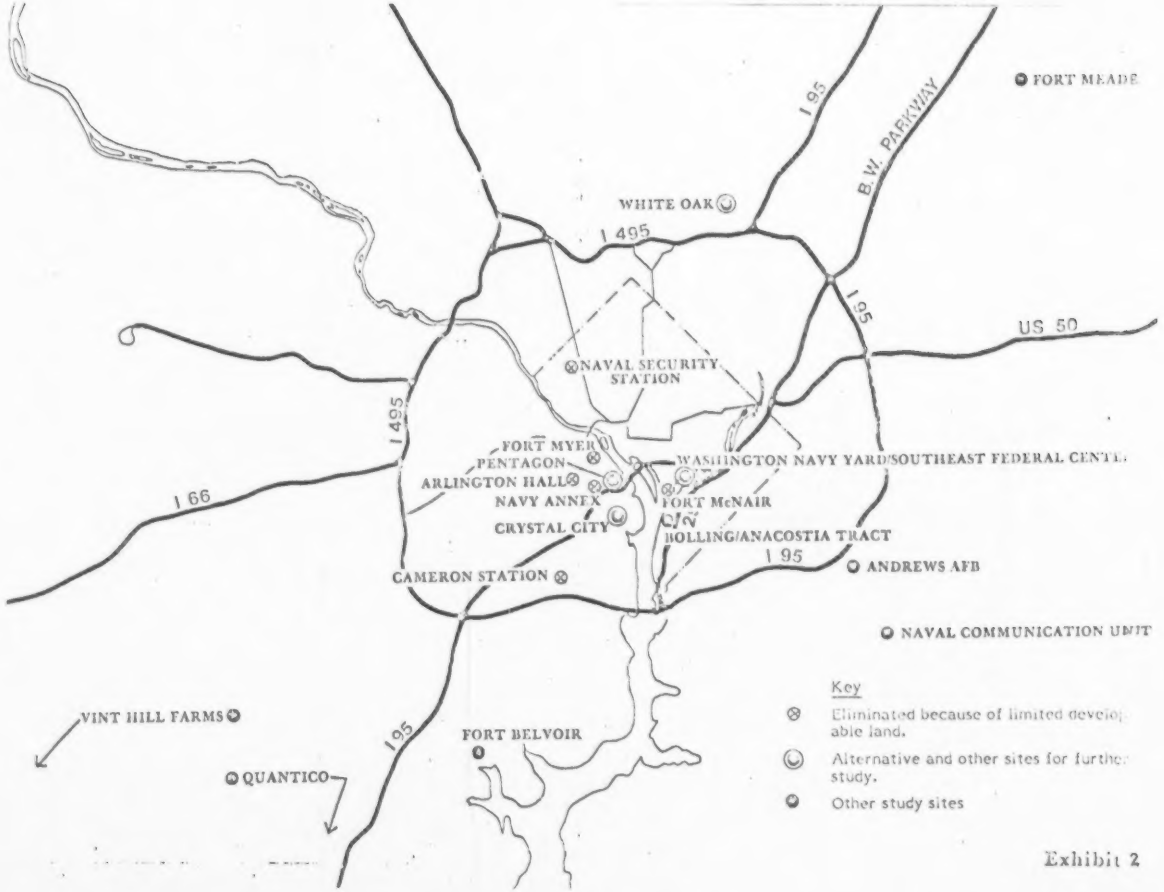

FORT MEADE
WHITE OAK
I 95
B.W. PARKWAY
I 495
US 50
NAVAL SECURITY STATION
FORT MYER
PENTAGON
ARLINGTON HALL
NAVY ANNEX
CRYSTAL CITY
WASHINGTON NAVY YARD/SOUTHEAST FEDERAL CENTER
FORT McNAIR
BOLLING/ANACOSTIA TRACT
I 66
CAMERON STATION
ANDREWS AFB
NAVAL COMMUNICATION UNIT
VINT HILL FARMS
FORT BELVOIR
QUANTICO
Key
Eliminated because of limited developable land.
Alternative and other sites for further study.
Other study sites

Exhibit 2

[Exhibit 3]

EVALUATION CRITERIA OTHER THAN COST

Land Size and Site Availability.
Transportation.
Utilities.
Naval Environment.
Proximity to Pentagon.
Regulatory Approval.
Operational Efficiency.
Community Adaptability and Availability of Support Facilities for Military Personnel.
Special Considerations.

[EXHIBIT 4]

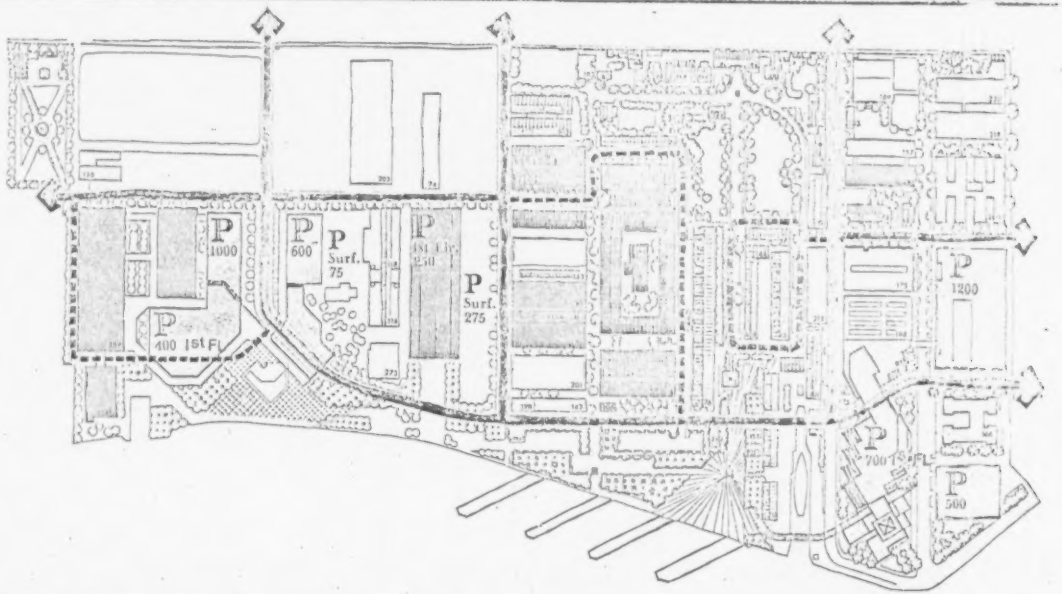
CONCLUSIONS (RANKING)

Site	Weighted rating	Cost (millions)
Washington Navy Yard	827	$275.4
Status Quo	751	(1)
Crystal City	635	323.5
Pentagon	710	323.6
White Oak	537	345.6

[1] Not applicable.

Conclusion: Washington Navy Yard/Southeast Federal Center is preferred alternative.

Recommendations: 1. Final decision should be based on findings of Environmental Impact Study. 2. Environmental Study should consider: WNY; Pentagon; White Oak; and Crystal City.

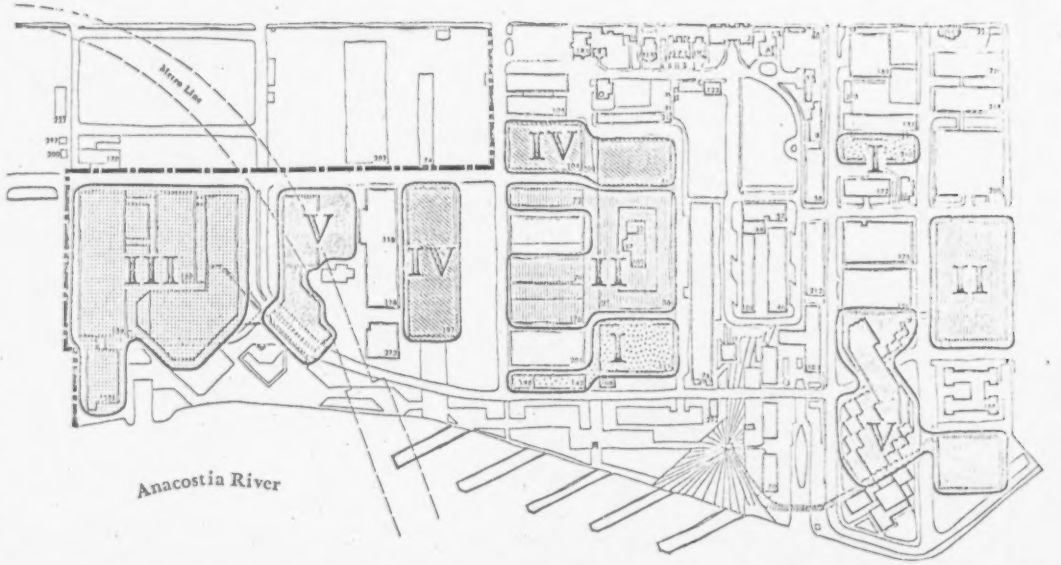


DEVELOPMENT / CIRCULATION

Development Legend		Vehicular Circulation Legend	
	Renovation		Major
	New Construction		Minor
	Existing not affected	P	Parking

(5000 new plus approx. 1000 exist. equals 6000 spaces total)

Exhibit 6



MCON PROGRAMMING

MCON Cost Summary (FY 83 Constant Dollars)

	Phase I	$17m		Phase IV	$54m
	Phase II	$68m		Phase V	$58m
	Phase III	$83m		Total	$280m

Exhibit 7

STATEMENT OF HON. CHAPMAN COX, DEPUTY ASSISTANT SECRETARY OF THE NAVY (LOGISTICS), ACCOMPANIED BY REAR ADM. J. T. TAYLOR, CIVIL ENGINEER CORPS, U.S. NAVY, DIRECTOR, SHORE ACTIVITIES PLANNING AND PROGRAMING DIVISION, OFFICE OF THE CHIEF OF NAVAL OPERATIONS

Mr. Cox. Thank you, Senator. It is a privilege for me to be here. As you know, this is the first such hearing I have attended as a witness and it is indeed a privilege for me in this capacity to appear before you.

I am prepared to go through my statement. I think in the statement we deal with your concerns about the economic desirability of the plan and the environmental impact concerns. We do not deal in the statement with your concern about the adequacy of notice.

I would prefer—but I will proceed as you wish—to go through the statement.

Senator WARNER. You do not need to read your whole statement we have all had that opportunity.

Mr. Cox. All right, fine, sir. Let me just hit the highlights then. I would like to at least address the categories of comments which were in the statement: (1) what motivates us to move to the Yard or to relocate in general; (2) how we focused on the Navy Yard; (3) the background of the congressional interest (which gets back to the section 612 notification, and gives you an opportunity to raise questions about that); (4) briefly say something about the alternate sites study; and (5) talk about our development plans.

First of all, what motivates the Navy to relocate out of leased space? I do not have to belabor the point that there is strong congressional sentiment for moving all Government offices out of leased space into Government-owned space, wherever it is economically feasible. As I cited in my statement and as the Senators well know, S. 533, which passed in May 1981 unanimously—93 to 0—strongly announces the policy that the Government will house its offices in publicly owned buildings because that is considered to be the most economic way for the Government to proceed.

Second, there was a GAO report in 1979 which concluded the very same thing. In fact, the GAO report may have been the genesis or the seed that started these congressional initiatives. It concluded that it is much more economical from a long-term budgetary standpoint to build and occupy Government-owned buildings, than to lease them.

Third, Department of Defense directives state that leases for long-term requirements are not the preferred way to provide housing for our offices. That policy has been reconfirmed by the current administration.

Last, and probably the most important motivating factor, is the way that lease costs have risen dramatically in the National Capital region in recent years. They doubled between 1975 and 1980. Our leases are coming up for renewal over the next 5 to 10 years and the lease rates (which is the market that we are going to have to be negotiating in) are expected to redouble by the mid-1980's.

So, these things are all factors which have motivated us to strongly consider moving out of leased space: Congressional interest in it, directives from the administration, and the pure economics of doubling and redoubling lease costs.

What did we do about it? First, we tried to locate Government-owned property which we could move into, and we did this in a fairly organized way. We looked at four alternative ways to proceed.

One would be to purchase existing office buildings;

Two would be to buy land and build buildings;

Three would be to construct new buildings on land already owned; and

Four would be to renovate underutilized buildings.

Those alternatives were looked at in a rough way but it was fairly clear to us from the beginning that alternatives one and two, that is purchase of existing buildings and purchase of land to construct new buildings, were not very economical. They would be the most expensive alternatives.

It was also clear from the outset that alternative four, the use of underutilized buildings already owned, by renovating and upgrading them, was probably the most cost effective.

So, we did some preliminary alternative site studies of available Government-owned installations around the National Capital region, to see where we might relocate.

Now, on exhibit 2 (of which this chart is a larger representation) the sites which we identified as possible sites are illustrated. We looked at 18 alternatives: 16 available sites that are Government-owned property, plus two other alternatives. The first of the two alternatives, in addition to the 16 sites, is staying where we are, maintaining the status quo by renegotiating those leases as they come up. The second alternative would be just to purchase the buildings we now occupy. Those were the alternatives we looked at.

I think we might as well get into your concern about the adequacy of notice at this point. When we first did this study, it was not as comprehensive a study as you have in the alternates site study, which we gave your staff. We acknowledge that. It was done by different people, using different assumptions. The conclusions were fairly rough, but it seemed, at that preliminary stage, that all of the conclusions were focusing on the Navy Yard as the place to go.

It was at that point that we thought we should do some design work and, because we were already for other reasons doing some construction in the Navy Yard to accommodate facilities that were moving there (for example, MSC from the Tamol Building), we recognized that, if we are going to do these other projects in the Navy Yard, they should be coordinated with a long-range plan. That is when we started our design of those buildings, and dove-tailed them with the new idea that we would have a master plan for the Navy Yard.

I was not here when that started. The thinking on this started about a year ago. I have gone over the reasoning for the way the section 612 notices were cast, and I frankly am not satisfied with the adequacy of the 612 notices—I am just not satisfied.

There were decisions that were made. I do not think there was any malice or bad faith involved in how those notices were drafted; I think they technically complied with the law. I think people were not yet sure if the timing was right to get into the whole issue of the move to the Navy Yard.

My feeling is that, as soon as it became part of a master-planning effort, Congress was entitled to oversight of such plans, and they

should have been given better notice. All I can say is, that is water over the dam. As soon as we understood your concern, we jumped into this and tried to accommodate the concerns of oversight.

If we were moving too fast, I think one of the benefits of this hearing and this whole process has been to cause us to reevaluate our plan in a way to give you more opportunity for oversight. If you have read my statement carefully, you noted that one of the things that we did between the time you became aware of the impact of those notices in late July, one thing we have done in the last 2 months is, we have gone back and reevaluated the planning and tried to give you more opportunity for congressional oversight.

Let me just mention two other things that have happened since you expressed your concern. One of the things that we had to do in order to make the plan work was to negotiate with GSA for some space in the Southeast Federal Center. We did that. We had assumed from some prior discussions that the space we would use in the Southeast Federal Center would be certain space. If you do not mind, I am not following a script here.

Senator WARNER. That is all right.

Mr. Cox. This exhibit is a representation of the space. We had assumed the GSA would put us in these buildings [pointing to chart]. When we negotiated with them they said they would rather give us the buildings along the waterfront. We now have an understanding that they will transfer the buildings along the waterfront to us, subject, of course, to congressional approval and to a final decision, after our environmental study, that this is the proper place to go.

But the fact that they gave us those buildings, or rather agreed to transfer those buildings to us, created a change in the whole chemistry of the way the master plan was put together.

Another thing that happened during this 60-day period was that, in dealing with the reevaluation of the site and the concerns expressed by Congressmen and Senators, we realized that there are some buildings on the site that are much more easily renovated than others, and that we could get faster payback and earlier savings if we focused on those buildings first.

So, as a result of that reevaluation during the last 60 days, we have taken mainly those two things into account. First, the concern for congressional oversight—the way we have tried to do that is to phase the plan so that each step is more independent. This will give you several opportunities to say, "You are going too far," or, "You are going too fast."

Second, we have focused on the buildings that are more economically feasible in terms of their cost savings, so that we can get the higher savings in an earlier year.

I have gotten out of order in my statement, but I think the statement accurately reflects the comments I have just made extemporaneously, and accurately reflects what has happened.

Before we talk more about the development plan. I would like to make some comments about the alternate sites study. As you know, we have furnished your staff with a documented alternate sites study. When this committee first expressed its concern about our move to the Navy Yard, we were pressed fairly heavily about, "What sites have you studied?" We frankly admitted to your staff that the studies

that had been done were done fairly informally by different people, using not completely consistent assumptions.

So, we asked them for time to go back and document those studies, and do them in a more detailed, more professional way. We have done that in the last 60 days, and the product you have is the alternate sites study, which was given to your staff last week.

As I said before, there were 18 alternatives, 16 of which were sites that we could build upon, that were already owned by the Government. The other two alternatives were buying in Crystal City and the status quo.

Six of the sixteen sites were eliminated because the land area was too small, and they are indicated on the exhibit by a yellow circle around the site location. Those were Cameron Station, Arlington Hall, Fort Myer, the Naval Security Station, the Navy Annex, and Fort McNair.

The other sites were rated on two scales. They were rated on a cost criterion and rated on criteria other than cost. The criteria other than cost are listed on your exhibit 3. This is a fairly standard weighting system, which is shown on pages 22 and 23 of the alternate site study.

Let me give you some time, sir. Mr. Smith, do you have the gray-bound study? I am sorry, you do not; that is the final version.

Now, as you can see, these criteria involve subjective factors. They are subject to wide ranges of relative weight, depending upon the perspective of the evaluator. We have listed them on this chart in order from the ones we gave the most weight to, down to the ones we gave the least weight to.

The most weight was given to land size and site availability, and operational efficiency; and then, in descending order: Proximity to the Pentagon, transportation problems, regulatory approval, utilities, community adaptability, special considerations, and the naval environment. They are listed on the chart in that order.

We realize that this is a very subjective exercise, and we do not want you to get the impression that the No. 1 site that came out of this analysis is necessarily the one we have to go to. This is a standard way for people in the planning process to try to identify four or five desirable sites and to marry that conclusion with a conclusion on the cost factor. So, this is not the only basis upon which we evaluated the sites. We also evaluated them on the basis of cost.

However, when we did the study, the Navy Yard ranked the highest under our evaluation of these noncost factors.

There were other sites that also ranked high, and there are four or five of those which we are continuing to study. They are, maintaining the status quo; purchase in Crystal City; constructing new buildings near the Pentagon, and relocating to White Oak.

I will entertain some questions on that now or later. I would like to go on to talk about the cost evaluation, which is the other side of the coin. This part [pointing to the previous exhibit] is basically to help us identify four or five of the most desirable sites. The other side of the coin is the cost evaluation that was independently developed, independent of this [pointing to the previous exhibit] analysis, and was based upon uniform estimating criteria.

The cost of the status quo was the most difficult estimate to come up with. That was based on a different analysis than the cost of construc-

tion. The cost of construction of all of the other sites was analyzed in a uniform manner. With the status quo there is no construction. We had to compare the status quo to construction at one of the other sites. Since we were focusing on the Navy Yard as the least expensive of the construction sites, we compared the status quo to that least expensive alternative.

We did that in a present-value analysis, an economic analysis which has been given to your staff, which shows you how we did that. The conclusion of the economic analysis is that, based on a present-value theory, the Washington Navy Yard is approximately $60 million cheaper than staying in our current buildings. Now, we have made some assumptions on that, and we have some of the economists that helped us with this here today, if I cannot completely walk you through it.

But the assumptions were that we would stay in our leases under the status quo; that we would stay in our leased space until those leases terminated; that when those leases terminated, they would be renegotiated at the fair market rate at that time; that we would use that rate over the next period of years, to round out the 30-year life that we have assumed for the Navy Yard construction.

The fair market rates projected at the end of those leases were the rates which, as shown in the economic analysis, were a combined figure based upon a Coldwell Banker study and the GSA projections.

We went to GSA and asked them, "What are the rates going to be in 1981, 1983, 1985, the years that these leases are terminating, so that we can project them in our study." We also got information from a Coldwell Banker study. We did not get the report itself; they would not release it to us, because it was proprietary. But we have what we think is a fairly accurate description of that study, and we used those numbers.

As you can see in the economic analysis, the GSA projections and the Coldwell Banker projections were very close. The number we used came right in the middle of the GSA projections, basically because the GSA projections were bounded on the high and the low by the Coldwell Banker projections. So, those were the numbers we used for determining the economic impact of staying at Crystal City.

The numbers we used for constructing buildings and renovating buildings at the Navy Yard were numbers that are right out of our current experience in constructing and renovating other buildings. If you have further questions on that, I would have to defer to some of our engineers, who came up with those numbers.

Now, putting the two evaluations together, the noncost factors and the cost factors, it is clear to us that the Navy Yard is the preferred site. We want to emphasize, however, as the alternate sites study does, that there may be environmental impacts of this plan. Therefore, we cannot make a final determination that the Washington Navy Yard is going to be the site of a grand move until that environmental study is completed.

What we have done with our development plan, as a result of this process, is to phase it in such a way that the first phase of it stands on its own. The design notices which we have given to the Congress and the Senate will be revised in accordance with that plan, so that if the environmental impact study and your concerns are not adequately met,

we are not committed, by doing this first phase, to a grand plan that includes the entire site.

We recognize that the study did not have sufficient data. I would like to just pick up here and read something about the environmental impact study, if you do not mind. We did not have sufficient data to analyze the impact of relocation on the home-to-work travel of affected employees. The study recommends that the final decision regarding the site be deferred until an environmental impact study can be completed. Therefore, we are now in the process of contracting with an architect-engineer firm to conduct the necessary environmental impact study.

Senator WARNER. Let me interrupt you on that point for clarification. It is our understanding you will do that study on four sites.

Mr. Cox. Yes, sir. On four sites—actually, I think it is five alternatives. They are: the Navy Yard, White Oak—correct me if I am wrong—the Pentagon, and the two alternatives at Crystal City: status quo and purchase.

Senator WARNER. I realize that events move swiftly in this city and I do not want to interrupt your direct testimony until we get to questions, but you might also begin to do some studying about the possibility of the proposal of the President to close down the Department of Education and the Department of Energy, to see if a substantial block of space would be freed up there.

Mr. Cox. Sir, I think that is a good question. We have talked to GSA about it. I think GSA is better equipped to answer that, but we are prepared to give you what our understanding of that concern is.

First of all, we do not think the Navy is going to be disbanded, it is going to be around.

Senator WARNER. What is that?

Mr. Cox. The Navy.

Senator WARNER. It is going to be around here a lot longer than you and I.

Mr. Cox. Yes, sir. So, the way we look at it, it is our job to conduct our business in the most economic and efficient manner that we can.

Now, the question is, if we free up leased space, if we go into other space, what impact does that have upon the GSA overall plan. They have some space, why not use that space?

The point here is that there is, it is my understanding, 62 million square feet of Government-occupied space in this region. Only 32 million square feet of that is owned by the Government. There are going to be ample functions in leased space to fill up what is going to be released by DOE and Education. There are 32 million square feet of leased space in this area; and there are 22 million square feet of leased space that is coming up for renewal in the next 5 years. So, there is more than ample need for Government-leased space to fill those DOE and Education buildings.

In fact, if we move into Education or into DOE, then when all this 22 million square feet of Government-leased space, which you Senators have said, "You have to get into Government-owned space," comes on the market, other agencies had better be looking at the Navy Yard, because there is some Government-owned space that should be filled to make it work.

So, my view of that is, somebody is going to be going to the Navy Yard, if the plans of the Congress to get into Government-owned

space are realized, and it might as well be the Navy. It is an appropriate place for us to go, and it is a very economical place.

That is my answer. There is more than enough leased space, there are 22 million square feet of leased space that are going to be looking for Government-owned space. The Navy Yard is a very attractive place to go in terms of the economics.

Getting back to the development plan, I have mentioned this before, but I would like to just highlight the objectives that we focused on in doing the phasing.

First, we want to satisfy command space requirements. We looked at the people whose leases are coming up for renewal and tried to accommodate those needs without negotiating new leases.

Second, we want to maintain command integrity so that we do not pull bits and pieces out of different commands and put them into scattered buildings.

Third, we want to optimize the utilization of existing Government-owned buildings, which is the keystone of this plan.

Fourth, and also important, is to optimize the utilization of existing Government leases. The existing Government leases are valuable leases. They have low rates and favorable lease terms. We want to use these leases as long as we can. We have done our economic analysis assuming that we will.

Fifth is obtaining the earliest payback we can by renovating the least expensive property first, so we will gain our highest savings early.

Then sixth—and I think this is important for you and the House of Representatives—is phasing the development to minimize the negative impact of a downstream decision to scuttle subsequent phases.

What we have placed in the first phase is three projects, which are indicated in my statement. They involve the renovation of two buildings—shown as phase 1 there and there (pointing to exhibit 7)—and a public works facility to accommodate those buildings; and improvements to the electrical distribution system.

Those two buildings will house the Naval Facilities Engineering Command, which will move from the Hoffman Building, and the Military Sealift Command, which will move from the Tamol Building in Maryland.

So, the people involved in this first phase would be coming from the Hoffman Building and from the Tamol Building in Maryland. The people coming from the Maryland site would go to the building in the upper right-hand corner of the chart, and the people coming from the Hoffman Building would go into that site (pointing to the middle of the chart).

We believe, if we revise our section 612 notices to be consistent with this phasing and begin the design soon, that we can be at 35-percent design completion in time for the Milcon committee hearings.

We also believe that the environmental impact study should be conducted concurrently, so that the final site selection for the entire project, not just the first phase, can be fully evaluated before the first construction contracts are awarded.

This would permit us to be about half-way through the fiscal year in question and permit occupancy of the first phase buildings in 1985.

In view of the extensive budget reviews in progress, we must at this time be somewhat tentative as to the follow-on phases. Our planning takes this uncertainty into account. As I have said, the first phase is independently viable; it does not depend upon follow-on construction; and it would be desirable economically and administratively, if subsequent phases are disapproved.

In summary, then, our planning to date is predicated on our desire to operate in an as efficient and economic manner as possible. Simply stated, the economics of rising leases costs dictate, as has the Senate, that we seek a more cost-effective means of providing administrative office space.

Thank you.

Senator WARNER. I am impressed with the degree of analytical work you have done here, cost analysis, and so forth. But I do not think you have mentioned the word "people" once. Where is the transportation? Where is the parking? Where are the time constraints imposed on these people, most of whom I would presume now live in northern Virginia?

Mr. Cox. Well, I would say "more." Let me say first that—and I do not want to dodge your question—I do not have enough scientific data to really reach a conclusion on that, Senator. The environmental impact study will carefully focus on this question. But I will give you some data that we have, and on the basis of which we have made some rough estimates in this regard.

First of all, I must point out that this is not an immediate move. If the move takes place, it will occur over 5 to 7 years, at the earliest. So, we are not dumping 18,000 people in the work force on that site immediately. During that 5 years—let us just take 5 years——

Senator Warner. Beginning what year?

Mr. Cox. That would begin in 1985.

Senator WARNER. In 1985.

Mr. Cox. During the 5 years from 1985 to 1990, if we continue to experience the same kind of manpower dynamics in the Navy, at least half of those people will not be the same people. So, we have to realize that even though we have a matrix of demographics that we are working with now in 1981, in 5 years there will be a 100-percent turnover of all the military people, and there will be a 50-percent turnover, approximately, of all the civilians. If you extend that out to 1990, there will be almost a 100-percent turnover of the civilians.

So, while we can determine where they live now, apply it to some assumptions and come up with some conclusions, you should understand that the people we employ now are in no way going to be the same people we employ in 1990. Moreover, at least half of them will be different people in 1985. So, where they come from, where they decide to buy their homes, all of that will be different.

But let us just consider the 18,000 people that we have right now working in Virginia. Where do they live? Sixty percent of them live in Virginia, on the basis of our crude analysis. What we did, we went to our personnel records and pulled the ZIP codes. We did not have enough time to do any more thorough study, but we will do that thorough study. We will find out exactly where they live; what bridges they would use, and so forth in getting to work.

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But, 60 percent of them now live in Virginia. The other 40 percent, surprisingly, live in Washington, D.C., and in Maryland, and would not be crossing the bridges.

Now, of the 18,000 people, our best guess is that about 4,500 cars are driven to work. The other people get there by car pools in those cars, or they ride public transportation, or use some other means of getting to work. So, we are talking about 4,500 total cars of those 18,000 people. And remember, we are talking about the people right now. We do not know where they are going to live in future years.

If you take 60 percent of those 4,500 cars, you are down to 2,700 cars that are going to be crossing from Virginia to the eastern side of the Potomac under the plan, 2,700 cars.

By the same token, there are 1,800 cars of the people that are now crossing the bridges in the other direction that would not have to cross the river. So, the net change on the bridges is only going to be about 900 cars in the morning and about 900 cars in the afternoon. That is a miniscule impact when you consider that there are over 300,000 cars that travel those four bridges every day.

Now, that is as close as we can get to answering your question, and I admit that is not a scientific answer. We have to determine what the capacity of the bridges is at rush hour; what their current load is at rush hour; how many of these 900 cars are going to be using the Wilson Bridge, how many are going to be using the 14th Street Bridge, et cetera.

Senator WARNER. That gives us a framework.

Mr. COX. That is as close as we can come in answering your question.

Senator WARNER. With your pledge to do a more thorough study as a part of the environmental impact, I will let that question rest. I will submit other questions for the record since I am endeavoring to conclude this hearing, so Mr. Byrd and I can go to a special hearing on AWACS. Mr. Byrd?

Senator BYRD. Thank you, Senator Warner.

First let me say, Mr. Cox, that I recognize your dedication and how conscientious you and your associates are in trying to work out the problems that face you and the Navy.

Let me be sure I understand the basic Navy proposal. You want to get out of leased space because of cost. Your preferred alternative at this point is to relocate in what is now the Washington Navy Yard. You would get some additional land and buildings from GSA in what is known as the Southeast Federal Center, and you would spend $275 million renovating these facilities and building some new facilities.

You would relocate approximately 18,000 people now scattered around Washington to the Navy Yard. You need about 2,850,000 to 2,900,000 square feet of space either renovated or built in the Navy Yard to accommodate these people.

Now, is that a reasonable summary?

Mr. COX. That is probably better than I could do, sir.

Senator BYRD. Thank you, sir.

Now, how many square feet are you using now for these purposes that you have in mind?

Mr. COX. There is a little bit of an inconsistency, which you may see in some of the exhibits. We now occupy 2.5 million square feet, net. We are going to need to construct 2.9 million square feet, gross. That is

because, as we say in my office, "The heads, halls, and hoists" are not included in the net. The elevators, the hallways, and the lavatories are not included in the net figure. So, the 2.5 million is what we occupy now, but in order to renovate our own space we would need 2.9 million gross square feet. We are not asking for more space than we have now.

Senator BYRD. Now, let us put this proposal in some kind of perspective. Let us compare the parameters of your proposal to the Pentagon. How large is the Pentagon in square feet and how many employees work in the Pentagon?

Mr. COX. The Pentagon has approximately 6.5 million square feet, and approximately 30,000 employees work there.

Senator BYRD. So, what you are talking about, then, is a half a Pentagon—practically half a Pentagon.

Mr. COX. Yes, sir. Not in terms of gross square feet, but in terms of number of people.

Senator BYRD. Well, also in terms of gross square feet you are not far off, roughly 3 million compared to 6½ million.

Mr. COX. Not far.

Senator BYRD. So, you are proposing in effect half of a Pentagon building built here in the Washington Navy Yard.

Mr. COX. Yes, sir, that the Government is paying a lot more for that than they should have to be paying. If the Pentagon were housed in leased space, I think there would be a great cry from Congress to get out.

Senator BYRD. I think it is very important that the Government and the taxpayers be protected on the costs, whether they be leased costs or construction costs.

Mr. COX. Yes, sir, that is the driving force of this plan.

Senator BYRD. Now, is it not correct that the Pentagon is not fully utilized? Is it not correct that there is space in the Pentagon that could be utilized?

Mr. COX. That it is not my understanding. In fact, my understanding is the contrary, that it is as full as it can be, given the current configuration of its offices. The halls are wide, yes. The halls are wider than the halls we are going to make at the Navy Yard or wherever we construct space. They are wider than the halls in my office over in Crystal City.

Senator BYRD. But the Pentagon is filled up?

Mr. COX. It is my understanding that it is filled up, yes, sir.

Senator BYRD. You say it is your understanding. Have you or your associates looked into the details of the Pentagon, whether there is a possibility for use there?

Mr. COX. Rear Adm. Ted Taylor is on the staff of the Chief of Naval Operations, and his responsibility—one of his responsibilities—is the housing of naval personnel. He tells me that every time we ask the Pentagon for increased space there to house expanding facilities—as you know, the Navy right now is in an expanding mode in terms of trying to rebuild the Navy—they come back and say, "We do not have any more space."

Senator BYRD. But have you done more than just ask, have you searched it out like you have these other sites?

Mr. COX. No, sir; and we will if you like.

Senator BYRD. It occurs to me that it might be well worth doing. I think it would be well for the committee to know what the situation is.

Mr. Cox. We will do a detailed study of every space that is available in the Pentagon and supply that for the record before the close of the record.

[The information follows:]

NAVY YARD ACREAGE

The staff of the Deputy Assistant Secretary of Defense (Administration), which is responsible for assignment of General Services Administration administered space to all Department of Defense components in the NCR, has advised that as of March 31, 1981, as reported in the DOD Administrative Space Report, there was a total of 194 square feet of vacant space in the Pentagon. As of that date, the total authorized personnel strength for assigned organizations in the Pentagon was 22,718. These personnel occupied an average of 145.9 net square feet of office space per person, as compared to the average of 172 net square feet of office space per person for all Federal agencies in GSA space in the Metro D.C. Area. In order to meet expanding requirements of Department of Defense, the staff of the Deputy Assistant Secretary of Defense (Administration) is presently conducting an intensive review of space utilization in the Pentagon. However, based on the above data, it would appear that any available space that might be identified by that study would be insignificant in comparison to Navy's 2.5 million net square foot requirement to vacate leased space in the National Capital Region.

Senator BYRD. I do not suggest that there would be half a Pentagon, again, available to you.

Mr. Cox. I doubt that there would be more than 3 percent, sir.

Senator BYRD. How many acres are in the present Pentagon.

Mr. Cox. Acres?

Senator BYRD. Acres.

Mr. Cox. Of land, including the parking lots, et cetera?

Senator BYRD. Yes.

Mr. Cox. We have done that study, sir, in terms of the amount of space available. I think it is in the alternate site study. As you know, one of the alternatives that we are going to include in the environmental impact study is to build buildings above the parking lots at the Pentagon.

Senator BYRD. We are talking about building half of a Pentagon, that is a powerful building.

How many acres are in the Washington Navy Yard, in total, and how much do you plan to take?

Mr. Cox. I do not have that off the top of my head, but we can get it for you. It is in the study.

[The information follows:]

TOTAL NAVY YARD ACREAGE

The present Washington Navy Yard contains approximately 67 acres. The underdeveloped portion of the Navy Yard under consideration contains approximately 39 acres. The portion of the adjacent Southeast Federal Center that would be included in the proposed revised redevelopment plan is 26 acres. Thus, a total of 65 acres is affected by Navy's proposed redevelopment plan.

Senator BYRD. All right. Now, you say you plan to build in stages, how many stages?

Mr. Cox. The five phases that are here, basically.

Senator BYRD. Five phases.

Mr. Cox. Basically, annual phases.

Senator BYRD. And how would those phases break down in numbers of personnel?

Mr. Cox. I do not have that off the top of my head either, I will provide it for the record or, if you want to take the time, we will dig it up now.

[The information follows:]

NUMBER OF EMPLOYEES

An approximate breakdown of the number of employees involved in each phase of the Washington Navy Yard development plan is:

Phase:	*Employees involved*
I	1,200
II	2,850
III	7,450
IV	4,500
V	2,700
Total	18,700

Senator BYRD. The matter of moving people in and out of the District of Columbia, you have gone into that in some degree. But as I understand it, from your response to Senator Warner, you have really not made a detailed analysis of it.

Mr. Cox. No more than what we told Senator Warner. We thought the impact would be minimal, but we have to do a scientific study to reach that conclusion. As you know, we cannot under the law determine the site before we do that.

Senator BYRD. Now, you say that the environmental impact study will be conducted concurrently, permitting a final site selection decision to be made by the Secretary of the Navy after the environmental impacts have been fully evaluated.

After you have the environmental impact studies made, at that point do you plan to come back to this committee for approval?

Mr. Cox. Well, sir, the normal Milcon process, as I understand it, will take place. You will continue to approve Milcon projects, to work with the Milcon Authorization Act. The environmental impact study will be done by us, and if there are negative environmental impacts, then we will have to file an environmental impact statement and go through the normal legal process involving that environmental impact statement.

But we will keep you fully apprised. As we go along, your committee will know, and they will be able to monitor it. These things will be in the Milcon authorization request every year during the process.

Senator BYRD. How much do you plan to spend on environmental impact statements, for the five possible sites?

Mr. Cox. We have not negotiated a price yet, but we expect the range will be from $200,000 to $300,000.

Senator BYRD. Total?

Mr. Cox. For the environmental impact study.

Senator BYRD. For the five?

Mr. Cox. Yes.

Senator BYRD. Total for the five?

Mr. Cox. Yes. The environmental impact study is for the whole plan, not just the first phase.

Senator BYRD. I have other questions which I will submit for the record because of the time constraints of this other meeting. Thank you.

Senator WARNER. Thank you, Senator Byrd. Mr. Wolf?

Mr. WOLF. Thank you. I have a number of questions which I will submit for the record. Just very quickly because of the time.

You mention it is going to cost $280 million in 1983 constant dollars. What will that be in inflated dollars that we really deal with, based on a 10-percent inflation?

Mr. Cox. That is in the economic analysis; is it not? It equates to about $330 "then-year" dollars if you assume a 5-year construction beginning in 1983. You have to understand that if you get into using inflated dollars, then you also have to get into using inflated dollars to determine the economic impact of staying where we are, which means that the rent rates are going to be up, too.

Mr. WOLF. I understand that.

The second thing is, as Senator Warner alluded to, with regard to the people. What is the attitude of your employees, have you polled them and asked them if they support this, oppose this, or if they are neutral?

Mr. Cox. We have not polled them.

Mr. WOLF. What is your sense of their attitude?

Mr. Cox. The sense is that there are people that do not want to move, because they are very comfortably located where they are; and there are people that do want to move. We are getting mixed feedback. There are people that are objecting to it, and they seem to be the most vocal.

Mr. WOLF. Would they be the largest number, would you think?

Mr. Cox. I do not think so.

Mr. WOLF. Most people would like to move, then?

Mr. Cox. I would guess that it is about half and half.

Mr. WOLF. You have not asked them the question.

Mr. Cox. As I have said, we have not asked them.

Mr. WOLF. Do you plan on asking them?

Mr. Cox. Yes; we do. We plan on doing an educational survey, work with them, which would not be too expensive. We do not intend to put a lot of manpower into it, but enough to find out how they feel about it.

Mr. WOLF. I think it is very important, you know, having worked for the Government for years, that we treat our employees properly and not be insensitive to these things. I would hope that you would spend a little more dollars there, perhaps, dealing with people problems, than you do with bricks and mortar.

Mr. Cox. I think that is a good suggestion, and I think we should include that as we are doing our study.

Mr. WOLF. My last question is more of a comment. Does it trouble you at all—and perhaps it may not—that in this period of diminishing amounts of money to expend—we are talking about how we are going to meet the $12 million figure so we can begin to balance the budget and get down to a $42 billion deficit so we can lower inflation and interest rates? Does it bother you at all that the Navy is spending money for bricks and mortar and not for military personnel or ships? I get the impression you have pretty well made up your mind, Mr. Cox, where you would like to move. I think the Navy has.

Does the perception bother you?

Mr. Cox. Well, I do not want you to get any misimpression about where I am coming from. I am a fiscal conservative like you are. I was

appointed to this job 2 months ago. The thing that made this plan seem attractive to me was that it was the best thing to do in terms of long range life cycle costs. The reason that we are in such a problem now is that we were making short-sighted, near-term judgments. We have under a Democrat-controlled Congress made some short-term, nearsighted savings that have cost us this exponential curve in the out-years.

What we are trying to do is turn that ship around.

Senator WARNER. Watch out, now you are getting close to home; 10 years ago I put it there. [Laughter.]

It may have been a Democrat-controlled Congress, but a Republican administration.

Mr. Cox. Senator, I would also remind you that you approved the Navy Yard plan in 1970.

Senator WARNER. I know that. [Laughter.]

That is a fitting way to end the Navy testimony. Thank you very much, Mr. Cox.

Admiral, is there anything else you wanted to say?

Rear Admiral TAYLOR. No, sir.

[Additional information follows:]

NAVY RESPONSES TO QUESTIONS BY SENATOR WARNER

The following questions were submitted to the department for response subsequent to the hearing.

LEASE COSTS

Question. You have said that you want to get out of leased space because of cost. How much are you spending now for lease costs in the buildings that you propose to vacate? (Provide a building-by-building lease cost list for the record.)

Answer. Navy is currently paying the General Services Administration the below listed annual Standard Level User Charges (SLUC) for the space to be vacated in the buildings in question. We understand that GSA's current costs for the space to be vacated in each of these buildings is the amount shown, which includes lease costs paid to the landlords, plus estimated utilities and services costs for those buildings when the lease does not require the landlord to provide full services.

Building	Current annual costs paid by GSA for Navy occupied space to be vacated	Current annual standard level user charge paid by Navy to GSA
Ballston Center Tower No. 3	$85,934	$111,0[illegible]4
Ballston Center Tower No. 2	584,032	6[illegible]8,4[illegible]3
Ballston Center Tower No. 1	795,561	1,1[illegible]6,4[illegible]1
Hoffman Bldg. No. 2	1,413,955	1,3[illegible]7,1[illegible]9
Hoffman Bldg. No. 1	3,335	3,9[illegible]5
Webb Bldg	465,299	361,2[illegible]8
Pomponio Plaza	587,158	397,133
Commonwealth Bldg	394,685	4[illegible]1,471
Crystal Plaza No. 5	1,917,140	1,2[illegible]5,989
National Center No. 3	2,362,572	3,8[illegible]9,517
National Center No. 2	1,748,119	2,8[illegible]6,243
National Center No. 4	501,337	5[illegible]3,533
Jefferson Plaza No. 1 and 2	2,954,660	4,[illegible]36,2[illegible]3
National Center No. 1	1,357,419	2,406,695
Crystal Plaza No. 6	380,613	702,309
Crystal Mall No. 2, 3, and 4	2,505,280	3,309,985
Tamol Bldg	592,421	568,680
Nassif Bldg	147,795	2[illegible]6,418
Total	18,797,315	24,172,497

[1] Amount listed are effective until Sept. 30, 1982, except for the Webb Bldg. The amount listed for the Webb Bldg. is effective until Sept. 30, 1983.

Question. Who do you pay this cost to?

Answer. Navy pays SLUC to GSA, and in turn GSA pays the building owner the leased price, plus costs of utilities and services when the lease does not require the landlord to provide full services.

Question. Can you forecast these costs for the foreseeable future?

Answer. Based on the commercial lease market projections stated in Navy's revised economic analysis, the projected total GSA costs for the space to be vacated in the buildings in question are as follows (stated in constant 1983 dollars beyond 1983):

Year:	*(Millions cost)*
1981	$18.8
1982	20.0
1983	21.8
1984	21.8
1985	23.9
1986	25.7
1987	26.8
1988	26.8
1989	27.5
1990	33.2
1991	52.4
1992	62.9

Question. Do you have other costs that you must pay to occupy these buildings or does the lease cover all operating and maintenance costs? (Provide a building total cost for the record.)

Answer. Navy pays SLUC for full service. The cost to the Federal Government is the least cost paid by GSA to landlord, plus whatever other costs are incurred by GSA to provide full service. Navy pays additional charges if operations in the building extend beyond a normal workday period. The requested data is provided in a previous response. It is noted that Navy used current actual costs to the Government for normal workday operations in its revised economic analysis.

Question. Why will these costs go down if you move into the Navy Yard?

Answer. Navy would be able to take advantage of the capital investment already made in existing, under-utilized structures. Our economic analysis indicates that the required capital investment, primarily to renovate these structures to support administrative functions, would pay for itself in approximately twelve years. We assume that the renovated buildings at the Navy Yard will have a service life of at least thirty years.

GSA ROLE

Question. GSA now "manages" all office space in metropolitan areas. They acquire space, renovate space, protect space and maintain space as the "landlord" for all Federal agencies. If the Navy wants space in any metropolitan area, they get it from GSA. Isn't that generally the case?

Answer. No, GSA's charter does not extend to DOD-owned real estate on military installations.

Question. Why would new or renovated space in the Navy Yard be any different? Wouldn't GSA still "own" the space, and wouldn't the Navy pay "rent" for it?

Answer. No, as previously stated, GSA's charter does not extend to DOD-owned real estate.

PERSONNEL IMPACT

Question. 18,000 people is a lot of people to add to the community impact in Southeast Washington. Can you give us some feel for the magnitude of this move—for instance, how many people now commute each day across the Douglas and the 14th Street Bridges?

Answer. Navy's Environmental Impact Study will focus on this question in detail. While we cannot provide a scientific answer until the Environmental Impact Study is completed, we are able to respond in general terms at this time. First, relocations would occur over a five to seven year period, beginning in 1985. Navy presently is experiencing approximately 9 percent turnover among civilian employees each year, and almost 100 percent military turnover each three to four years. Therefore, when the moves would be completed by 1990, a different group of employees, with different residence locations, would comprise our work

force. However, based on present employee demographic data, only approximately 60 percent of the employees in question reside in Virginia. The rest reside in Maryland and the District of Columbia, and are already crossing the Potomac River bridges. Thus, there would be a net increase of 3,600, or 20 percent, of our employees crossing the Potomac River in their home-to-work travel. Second, only about one in four of our employees are expected to drive their own automobile to work. The rest will car pool or use public transportation. Therefore, there would be a net increase of only 1,800 vehicle crossings of the Potomac River, considering both home-to-work and work-to-home trips each workday. This would be a very small net increase in bridge traffic, considering that the three bridges in question presently have almost 300,000 vehicle crossings per workday.

Question. Where do most of these people live? What will be the impact on their daily commute?

Answer. As stated above, approximately 60 percent of the present Navy employees reside in Virginia. The remainder reside in Maryland and the District of Columbia. Impact on daily commuter travel would be as discussed above. However, these are very tentative conclusions. The Environmental Impact Study we are undertaking will analyze all aspects of the question in detail. The portion of the study pertaining to this question will be completed before the fiscal year 1983 Military Construction hearings, at which time a comprehensive response can be provided.

IMPACT OF OTHER PENDING FEDERAL REALINEMENTS

Question. Last week President Reagan announced to the American public that he would seek additional budget reductions of $80 billion over the next three years. We must bring the Federal budget under control. He announced that the Departments of Energy and Education would be disbanded and that 75,000 Federal workers would come off the payroll. In light of these other Federal cuts, I don't see how the Navy can seriously contemplate spending nearly $300 million for new office space in the D.C. area. Would you care to comment?

Answer. First, Navy is not going out of business. It is incumbent on the Navy to meet its requirements in the most economical manner possible. Second, it is Navy's understanding from GSA that there is probably more than enough Government requirements in the National Capital Region to fill the space that would be vacated by the Departments of Energy and Education. In this regard, GSA has advised that they control over 62.5 million square feet of space in the National Capital Region, of which almost 30 million square feet, or 47 percent, is leased. Approximately 22 million square feet of these leases expire within the next 5 years. There will be more than enough Government demands for space to fill the Government owned spaced released by the Departments of Energy and Education. If Navy does not relocate to the Washington Navy Yard, the economics are such that some other agency should. From Navy's perspective, Navy is the logical choice.

Question. Have you discussed with GSA moving into office space that may be freed up by the disestablishment of the Departments of Energy and Education?

Answer. Yes, we have discussed the matter with GSA. The Regional Administrator of the GSA has stated that approximately 2 million square feet of space will be returned to GSA by agencies other than Navy over the next seven years as a result of projected reductions in Federal employment. This will accommodate only a small fraction of the 22 million square feet of terminated leased space that will be looking for Government owned space.

ALTERNATIVES STUDY

Question: You indicated that you had looked at alternatives and the Washington Navy Yard option was not only the cheapest, it was the best in terms of your "quantitative ranking methodology". Your quantitative ranking methodology is unique; comparing some of your ranking is mystifying at best. For example, I find it strange that the Navy Yard should get a high 9 out of 10 possible points on the "Regulatory Approval" site selection factor, while across the river at Bolling Air Force Base they can only get 1 out of 10. I have prepared a spread sheet summarizing these rankings which I shall put in the record at this point. (There follows on the next page the summary of the site comparison.) Aside from having serious questions about your numbers, I'm not sure I understand why

you have done this at all. What is the purpose; suppose the Washington Navy Yard ranked 5th or even last in your quantitative ranking, would it still be the preferred alternative?

Answer. The subjective ranking methodology is only one of two tests which we used to evaluate the relative merits of each site. Investment cost was the other test. The system used is a fairly standard planning tool, which readily permits identification of the better sites, and the less desirable sites. Admittedly, the system is subjective in its approach. Depending on the point of view of the evaluator, different values and weights could be assigned. However, reasonable variations of the system probably would not drastically alter the results as to which sites were the more or less desirable. Recognizing the subjectivity of the system, and taking costs into account, the Alternative Sites Study concludes that the final site decision should be predicated upon the conclusions of the Environmental Impact Study.

The "Regulatory Approval" site selection factor took into account the probable reaction of the cognizant regulatory agencies over the property in question, such as the National Capital Planning Commission. In the case of the Washington Navy Yard, the National Planning Commission approved over fifteen years ago a base master plan that envisions conversion of some of the buildings in question to administrative functions. Moreover, the site development concept for the Navy Yard preserves historic buildings in a designated historic area. Therefore, a relatively high score was assigned. On the other hand, development of the Bolling/Anacostia Tract is controlled by a general development plan, which was specifically approved by the Congress. That master plan does not include development of this large Navy administrative complex; and it would take an act of Congress to approve such a major deviation from the plan. Therefore, a relatively low-score was assigned this factor at this site.

If the Washington Navy Yard had ranked fifth in the non-cost test, and still ranked the least expensive, we probably would not be confident enough to designate the Washington Navy Yard as the Preferred Alternative at this time.

Question: Suppose, for instance, that the cost of Fort Meade was only $250 million, which would be the preferred site?

Answer. We would be studying Fort Meade further in the Environmental Impact Study, and probably would not have a Preferred Alternative at this time. However, our estimate indicates that a development at Fort Meade to satisfy Navy's requirements would not cost $250 million. Navy's estimate for the construction of a complex at Fort Meade is almost $350 million.

Site selection factor	Weight	Andrews AFB	Bolling AFB	Crystal City (purchase)	Fort Belvoir	Quantico	Status Quo	White Oak	WNY
Land size and availability	18	6(108)	8(144)	2(36)	8(144)	9(162)	10(180)	8(144)	10(180)
Transportation	10	5(50)	5(50)	8(80)	3(30)	4(40)	9(90)	6(60)	8(80)
Utilities	9	4(36)	6(54)	10(90)	5(45)	2(18)	10(90)	3(27)	7(63)
Naval environment	7	1(7)	3(24)	5(35)	1(7)	3(21)	5(35)	4(28)	10(70)
Proximity to Pentagon	12	5(60)	8(96)	9(108)	6(72)	3(36)	8(96)	5(60)	9(108)
Regulatory approval	10	4(40)	1(10)	1(10)	4(40)	7(70)	10(100)	7(70)	9(90)
Support facilities	8	6(48)	5(40)	9(72)	6(48)	3(24)	8(64)	6(48)	8(64)
Operational efficiency	18	6(108)	5(90)	10(108)	5(90)	7(126)	4(72)	6(108)	10(180)
Special considerations	8	−1(−8)	0(0)	+3(24)	−1(−8)	−1(−8)	+3(+24)	−1(−8)	−1(−8)
Total		(499)	(508)	(635)	(468)	(489)	(751)	(537)	(827)
Cost (millions)		$320.8	$347.3	$323.5	$321.6	$325.8	(1)	$345.6	$275.4

[1] Not available.

Question. Your alternatives study includes only very gross cost estimates. Did you actually do a more detailed cost analysis?

Answer. We have a high level of confidence in our cost estimates for several reasons. First, estimates for new construction were based on both recent bids and nationally published cost indices. While they were applied uniformly to the various alternatives for comparison purposes, they were made site-specific as to unusual conditions at a given site, such as foundations, required utilities and

building heights. Second, the estimates utilized for rehabilitation costs were based on recent similar building renovations at the Navy Yard and indepe ident analysis of several of the specific buildings in question. These architect-engineer studies were quite detailed. Therefore, in the case of rehabilitation work at the Navy Yard, we do have a detailed cost analysis.

Question. Did you take into account any vacant space that might be available at these alternative sites?

Answer. Vacant space was considered at each site. However, no other site had vacant buildings, which could be incorporated into a Navy administrative complex.

Question. Are you personally satisfied that this Alternate Sites Study represents a credible analysis of possible options?

Answer. Yes, sir, I am with only one qualification. It should be clearly recognized that our Alternate Sites Study did not make the final site decision. Such a decision can only be made after environmental impacts have been adequately studied and evaluated. In the mean time, we are convinced that the conclusion of our Alternative Sites Study warrants proceeding with design of the fiscal year 1983 projects, so that we will be in a position to achieve cost savings at the earliest possible time, after further oversight review of the projects by the Congress during review of the fiscal year 1983 Military Construction program.

ECONOMIC ANALYSIS

Question. Let me ask you some questions on the economic analysis. I would like to refer to the economic analysis furnished at the time you briefed Congress on the original analysis. At that time, you used $18 per square foot as the rental cost in fiscal year 1983 to compute your life cycle cost of the "status quo" option. Is that not accurate?

Answer. Yes, Navy's original economic analysis used $18 per square foot as the rental cost in fiscal year 1983.

Question. At that time, I think you were asked why you didn't use the known lease costs instead of an assumed $18 per square foot for the life of the existing leases and you said that was logical and you would go back and compute a revised "Net Present Value Life Cycle Cost". Is that not accurate?

Answer. Yes, that is correct.

Question. Now, referring to your most recent cost analysis for the status quo alternative, you have in fact computed your actual lease costs through the life of your existing leases, but you have raised your $18 per square foot assumption to either $20, $27, or $31 depending on whether the lease is in downtown or in the suburbs. That is a rather dramatic change. Why did you raise your 1983 assumed cost by nearly $10 per square foot?

Answer. The $18 per square foot figure used in the original economic analysis was based on a very conservative estimate, which was derived from an appraisal by Navy staff appraisers. The low number was used because, although the approximate lease costs to GSA were known, we had no specific figures at the time. The $18 figure was further based on an estimate of average lease costs, stated in constant fiscal year 1983 dollars, over the 30-year life cycle, which would approximate the low actual early rate (for the approximate first ten years of the economic life) and the high later rate (for the last 20 years).

The later figures were based on specific market projections obtained from GSA and derived from a synopsis of a Coldwell Banker commercial lease market report. For the sake of consistency in the analysis, it was considered appropriate to use the best data available for anticipated future lease costs, if actual current lease costs were to be used for the period of time prior to lease expiration.

Question. What happens to your life cycle cost if you assume an FY83 lease cost of $18 per square foot?

Answer. The basic assumption of a fiscal year 1983 lease cost of $18 per square foot is not valid. Depending on the market analysis considered, the fiscal year 1983 lease cost per square foot for the property in question ranges from $19.00 to as high as $28.50 per square foot. Assuming an $18 per square foot lease cost, the status quo and Navy Yard relocation alternatives are approximately equal, applying other rationale contained in the revised economic analysis.

Senator WARNER. We will now hear from the General Services Administration. Gentlemen, if you will be kind enough to introduce yourselves and indicate your position.

STATEMENT OF JACK GALUARDI, ACTING COMMISSIONER, PUBLIC BUILDINGS SERVICE, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY WALTER KALLAUR, REGIONAL ADMINISTRATOR, NATIONAL CAPITAL REGION, GENERAL SERVICES ADMINISTRATION

Mr. GALUARDI. I am Jack Galuardi, I am the Acting Commissioner of the Public Buildings Service, and with me is Walter Kallaur, who is the Regional Administrator for the National Capital region. Mr. Kallaur will probably respond and provide you with an opening statement.

Mr. KALLAUR. Mr. Chairman, good morning. You have my statement. I am mindful of your comments to the prior witnesses. I would not propose to read that statement unless you wish.

Senator WARNER. We have no desire to have it read. Without objection it will be entered into the record in its entirety.

[The prepared statement of Walter Kallaur follows:]

PREPARED STATEMENT OF WALTER V. KALLAUR, REGIONAL ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION, NATIONAL CAPITAL REGION

Mr. Chairman, members of the committee: I am Walter Kallaur, the regional administrator of the General Services Administration's National Capital Region. I am pleased to appear before you today to discuss GSA's coordination with and commitment to the Department of Defense and the Department of Navy in their proposed development at the Navy Yard and the Navy Yard Annex in Washington, D.C. I will also briefly cover the effects of the proposed Navy move on GSA's space holdings in the National Capital Region and the commercial real estate market.

On July 17, 1981, the Administrator of General Services, Mr. Gerald P. Carmen and I met with Mr. David O. Cooke, Deputy Assistant Secretary for Administration of the Department of Defense, Admiral Ted Taylor, Chief of Naval Operations and other representatives of DOD and Navy, to discuss their future plans for the Navy Yard. During that meeting, the Administrator made a commitment to provide to DOD and Navy appropriate areas in the GSA-owned Navy Yard Annex if they received funding for the proposed development. Since that meeting, we have continued to work closely with them in coordinating their plans. We are particularly interested in working with them because the Navy will be moving from space leased by GSA, and because we have plans to develop the remainder of the Navy Yard Annex.

The Navy would move out of about two and one-half million square feet of space leased by GSA. In the National Capital region, GSA controls over 62.5 million square feet of space of which almost 30 million square feet, or 47 percent, is leased. The space vacated by the Navy represents 8 percent of GSA's leased inventory. In addition to the space returned to GSA from the proposed Navy move, we have projected that over the next seven years 2 million square feet of space will be returned to GSA by other agencies as a result of projected reductions in Federal employment.

These two factors combined, the Navy's plans and the overall Federal employment reductions, will result in about 4½ million square feet of leased space being returned to GSA.

This looks like a big problem, it will be a problem. Will GSA be awash in vacant space? What will we do?

During the five years starting with fiscal year 1984, leases for 22 million square feet of space will expire. All the leased space returned to GSA by the Navy will be evaluated to determine if it is feasible and cost effective to move another agency into the space. For buildings which reuse is not feasible, we will ask Navy to coordinate its move so that the lease will expire soon after the move.

It is too early to define the exact phasing of such relocations, but, I feel confident that GSA can either find suitable Government tenants for the space with long-term leases or can coordinate the moves of Navy to coincide with an expiring lease. Our objective is to keep vacant space at a minimum.

There are, however, costs associated with reusing the space. The cost to alter space for another Government tenant is $10–$12 per square for office space and $50–$55 per square foot for special space. In addition, the cost to move a new tenant in is about $100 per work station. These costs will have to be borne by GSA if an agency is forced to move. GSA would also have to absorb the cost of any unassignable vacant space.

Neither the proposed Navy move nor the overall reduction in space leased by GSA should have a serious impact on the commercial real estate market. According to a Coldwell Banker report, 3 million square feet of office space is being absorbed in the Washington, D.C. suburbs each year. The space released by GSA into this market would be spread over a period of at least five years. With this space on the market, some developers may delay plans for new construction until the space is absorbed. There could also be a slight, temporary, depression of the costs for space or, more likely, a situation where rates are a bit more stable, rather than escalating far more rapidly than the consumer price index as they have in the past. This would work to the advantage of the Federal Government by placing us in a stronger negotiating position for leased space, especially in renewing leased space throughout the National Capital region. This may result in a cost avoidance for GSA by stabilizing our lease costs for a few years.

Mr. Chairman, members of the committee, I will now answer any questions you may have.

Mr. KALLAUR. Thank you, sir. I would like to make three brief points and then respond to any questions.

The commitment of the General Services Administration to support this plan made by the Administrator of General Services, Mr. Gerald Carmen, was contingent upon approval by Congress of both the concept and the providing of funding for this project.

Navy space accounts for 8 percent of the GSA leased inventory in the National Capital region. The final point—again from the testimony as pointed out earlier—there are substantial numbers of leases that will be coming due. They will be subject to renegotiation or renewal during the next decade. This amounts to 22 million of the 30 million square feet in the inventory.

The purpose in citing that statistic is to point out that there is substantial flexibility in the decisionmaking process to accommodate changes in the mix of leased and owned space.

Thank you, sir.

Senator WARNER. Yes, sir.

Mr. GALUARDI. That about concludes it, sir.

Senator WARNER. I think it is important that we understand the GSA leasing policy. Here the Navy wants to move because GSA rent is too high. Will you explain what is meant by the SLUC—standard level users charge rate—and how this rate is concluded?

Mr. GALUARDI. We call it "SLUC" which is the acronym which you just described. The GSA operates under a Federal building fund, and the purpose of the Federal building fund is to provide the agencies who occupy space which GSA is responsible for to include in their analyses and their costs when they are going before Congress what the total cost of the Government doing work is.

In the past, before we had the Federal building fund, the General Services Administration had to seek the appropriations to provide for all of the space which the agencies were using.

In 1975, when the Federal building fund was established, this system said that the agencies had to seek the appropriation from their respective appropriations committees.

The SLUC is the system whereby we arrive at, through an appraisal process, what the current day-to-day cost of that space is. This

is the cost which we tell the agencies to put in their budget when they are seeking their appropriations.

The SLUC remains fixed for a period of approximately 2 years, increasing only for inflation factors; and every 3 years we reappraise the space.

The purpose of the SLUC is to provide the Federal building fund with an income, and from this income we pay for all of the operating costs of the facilities nationwide; we pay for the protection—these are the guards and so forth; we have to pay for the cost of buildings for which we have borrowed funds. When we construct the buildings, we borrow the funds under the purchase contract program and we have to pay that back.

Finally, we would take funds which become excess under this Federal building fund and use them for the purposes of constructing new facilities to replace what are aging facilities and also to replace leased space where we find it is in the best interest of the Government to replace that leased space with new constructed facilities.

Senator WARNER. Let us use the Pentagon and costs per square feet as an example. How much is the current SLUC rate for the Pentagon, what does the Defense Department pay the GSA to use the Pentagon?

Mr. KALLAUR. Mr. Chairman, the fiscal year 1980 SLUC payments to the General Services Administration amounted to $25 million.

Senator WARNER. How much per square foot?

Mr. GALUARDI. It is $25 million divided by 3.7 million net square feet. So, on a net rate that is $6.4, $7 a square foot, approximately.

Senator BYRD. Would the Senator yield at that point?

Senator WARNER. Yes, indeed.

Senator BYRD. I thought the Navy just testified that there were 6½ million square feet.

Mr. GALUARDI. That was gross square feet, sir. There are two figures. There is a net square feet and there is a gross square feet.

Senator BYRD. What is the difference?

Mr. GALUARDI. The difference is, certain features within the Pentagon, as an example, are not counted as space, that are used for housing the Federal employee itself.

There is a concession area within the Pentagon where you go and buy things; there are concession areas in other parts of it; there is space which GSA uses for its shops in order to maintain the building. These things are all counted within the gross square feet of the building.

You have to build a building big enough to have those kinds of things in it. But the amount that the agency specifically uses is called net. We use that net in order that we would be able to assure ourselves that the agencies are using the most economical amount of space.

In other words, when we calculate what we call a utilization rate, that is how many square feet does an agency use, we use net because that is the amount they are using.

As an example, we could have parking in a building. The Pentagon does not have any parking within it but other buildings do have it, and therefore your gross is going to be much larger than your net. In fact, the ratio is normally about 75 percent of your gross to your net.

In the case of the Pentagon it is 3.7 million net and it is 6 some million gross.

Mr. KALLAUR. 6.2 million.

Senator WARNER. Do you have the 1982 figures for the Pentagon?

Mr. KALLAUR. Yes, sir. The 1982 figure will be $42 million.

Senator WARNER. What does that work out to, about $10 or $11 per square foot?

Mr. KALLAUR. It works out to just under $10, $9.73.

Senator WARNER. What concerns me is that there is some money going through a crack here, which we will for the moment call profit. Where does that end up, and why is that profit not being plowed back into part of the construction cost for the Navy's new facility?

Mr. GALUARDI. The amount that you are talking about is used for that purpose. This is what the General Services Administration, coming through the Office of Management and Budget, puts forward as its construction program each year.

Mainly, the construction is occurring elsewhere in the United States. We have projects that are in Savannah, Ga. We have had to extend some courthouses like in Miami, and other projects that are of fairly high priority.

With regard to the Navy, we have not put any funds back in our planning program for the Navy at this point because from our standpoint they are at this moment satisfactorily housed in the leased space that they are in. We handle long-term leases in the Crystal City area. There are shorter term leases that are in the Ballston Tower and in the Hoffman area; but at this moment from our planning standpoint we would not propose to put any of our funds into construction for Navy.

We do a 10-year planning program right now, and within that 10-year planning window we do not plan any construction for the Navy.

Senator WARNER. That is getting to the crux of the problem. Here are two Government entities, one the Navy desiring to move, but based on your overall Government survey they would not be eligible for these trust fund dollars because their priority is such that they are down below other segments of the Government. Is that about it?

Mr. GALUARDI. That is about correct, sir.

Senator WARNER. Then it appears to me there is a conflict of judgment. The Navy exercising a judgment it should move; you, the professional managers of the space, saying they should not move.

Mr. GALUARDI. The Navy is doing one thing which we would agree with because it is within our policy which states that we ask the Federal Government to always use Government-owned space first. To the extent that there is any of that space available, we would ask them to use that first.

If they have such space available in the Navy part of the Navy Yard, then it would be within our interest and the total Government interest to have them move their employees to that location and if not their employees, some other Federal employees.

But I would presume they have enough needs that they would not look outside their own agency. So, therefore I would say that that aspect of what the Navy is doing is appropriate for GSA.

Senator WARNER. That is assuming there were some place for them to move. The present facilities are occupied by pigeons, mostly; are they not?

Mr. GALUARDI. I do not know, sir, I have not looked at that side of it.

Senator WARNER. In my old days down in the Navy Yard, there were a lot of pigeons there.

Do you want to answer that, Mr. Cox?

Mr. Cox. Well, the buildings are underutilized, as I have said in my statement.

Senator WARNER. And a lot of them are vacant.

Mr. Cox. I would not say "vacant." For example, we have a large warehouse that has been used for a motor pool. There are a few people in there and vehicles.

Senator WARNER. They are just shells of buildings, that is all they are.

Mr. Cox. Yes, sir, they are different kinds of old buildings, from warehouses to old guns——

Senator WARNER. Where we built a 16-inch gun?

Mr. Cox. Yes, sir.

Senator WARNER. We are getting to the point here. You, as the professional managers, when you look at the overall Government requirements, say if there is Government-owned space they should move out of leased to Government-owned.

But in reality the Government owns space that is not ready without substantial amounts of money.

Mr. GALUARDI. That is correct. Mr. Chairman, I might say for the record that GSA comes under the Public Works Committees with regard to its programs as to oversight. You may or may not be aware of the fact that there is a bill which the Senate has passed, S. 533, and within that bill the Senate has taken the position that the Government should move out of leased space and into Government-owned space within its long-range plans.

The House Public Works Committee tends to agree with that. The administration is looking at what its position is in regard to that same position. But there is legislation which is approaching this same subject matter, that the Government should be giving up leased space and going to Government-owned space.

Senator WARNER. How much does it cost GSA to operate the Pentagon? What are your annual costs per square foot?

Mr. KALLAUR. The operating costs, with your permission, sir, we will use fiscal——

Senator WARNER. Let us use 1982.

Mr. KALLAUR. For 1982 it would all be projections, 1980 would be the last year for which we have actual costs.

Senator WARNER. Give both.

Mr. KALLAUR. Give both? Yes, sir, in fiscal year 1980, the total expenditures at the Pentagon, including direct contributions by the Department of Defense for services beyond the standard level, which amounted to $7 million, the total expended at the Pentagon was $26.5 million. That included repair and alterations work, protection, cleaning, utility service, and other direct costs.

Senator WARNER. What was the SLUC recovery on that?

Mr. KALLAUR. The direct SLUC contribution was $25,486,000.

Senator WARNER. Did you break even?

Mr. KALLAUR. No, sir, we in fact turned a modest profit.

Senator WARNER. What about the 1982 projection?

Mr. KALLAUR. The 1982 projections, the direct SLUC payments, would amount to $42,800,000. We project a direct reimbursable from the Pentagon for services in excess of standard level of $8 million, and we project expenditures, including those reimbursable costs, of $34,900,000.

Senator WARNER. There is $15 million flowing back into GSA's pocketbook?

Mr. KALLAUR. Yes, sir.

Senator WARNER. What really disturbs me is that this trust fund is not eligible, or the Navy is not eligible for participation in this trust fund under the proposal given this morning. Is that an accurate statement?

Mr. GALUARDI. No, that is not true. They are eligible. They have to fall within the program which GSA establishes. Ultimately, the fund could in the future be asked to provide for a Federal facility for the Navy.

Under the Public Building Act of 1959, which is the act we now act under, the Navy is general purpose office space, and GSA is responsible for general purpose office space. The difference is merely the priority. We do not see the Navy requiring Federal construction in the near out-years of the 10-year period.

Senator WARNER. That is clear. I will defer now to Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

How much is now in that fund, in total?

Mr. GALUARDI. Each year we——

Senator BYRD. What is the total?

Mr. GALUARDI. We receive income and have expenditures which are authorized by the Congress.

Senator BYRD. What is your balance now?

Mr. GALUARDI. I am trying to get to the point. We have $1.8 billion that was in the fiscal year 1981 and we have expenditures that nearly use it all up. We come within about $100 to $150 million of that.

Senator BYRD. What is your balance as of the end of last month or the month before?

Mr. GALUARDI. As of the end of fiscal year 1981, it is projected to be about $100 to $150 million.

Senator BYRD. What is the $1.8 billion you are talking about?

Mr. GALUARDI. That is the income we received from all the agencies for the rental which they paid GSA. The expenditures which I have to put out, which is to pay for the utility bills and guards.

Senator BYRD. Do I interpret it correctly, then, that you are taking in $1.8 billion and you are spending $1.650 billion?

Mr. GALUARDI. If that is the difference, yes.

Senator BYRD. In other words, you anticipate a balance at the end of this fiscal year in the fund of $150 million.

Mr. GALUARDI. Yes, sir.

Senator BYRD. And you had a net of $16 million from the Pentagon alone.

Mr. GALUARDI. Yes, sir.

Mr. KALLAUR. No, sir; that was the 1982 number.

Mr. GALUARDI. That is 1982.

Mr. KALLAUR. The 1981 number is very close, it is $15 million.

Senator BYRD. Is $15 million.

Mr. KALLAUR. Estimated.

Senator BYRD. So, 10 percent of your net comes from the Pentagon.

Mr. GALUARDI. Ten percent of the difference, yes. But the Pentagon also costs us some funds to operate.

Senator BYRD. But I thought you said you have a net profit of $15 million.

Mr. KALLAUR. "Profit" is a word that the chairman used.

Senator WARNER. Well, it goes into the trust fund.

Mr. KALLAUR. Yes, sir. In some cases the balance in the fund is not available for expenditure, based on instructions from the Congress or from the Office of Management and Budget, in the original submission.

Senator BYRD. I am trying to find out, though, how much is in the fund at a particular point. At the end of this fiscal year you say you will have a balance of $150 million.

Mr. GALUARDI. It is between $100 and $150 million; yes, sir.

Senator BYRD. Now, you did not answer the question in regard to the per square foot cost on the Pentagon rental. You have given both the net and the gross figure on that for 1980, and the net and gross figure on that for 1982.

Mr. GALUARDI. We could give you the net figure, sir; but for the record we would have to provide you with the gross figure.

Mr. KALLAUR. Would you like to have those numbers, sir, now, or can we submit them for the record?

Senator BYRD. I would like to have them now, yes.

Mr. KALLAUR. For 1980, based on occupiable square feet of 3,597,000, the GSA SLUC collection amounted to $5.35 a foot. When added to the contributions by the Department of Defense, the total operating funds available to maintain that building were $7.35 a foot, of which—excuse me, I just gave you the cost, I misread the table.

The cost of operating that building was $7.35 per foot, which included the direct GSA contribution and the Department of Defense.

For 1982, those numbers will be a direct GSA contribution of $7.28 a foot and $9.73 total.

Senator BYRD. That is for the net, not for the gross.

Mr. KALLAUR. That is for the net, yes, sir.

Senator BYRD. On Crystal City, what rent per square foot do you pay on both a gross and a net basis?

Mr. KALLAUR. Let me understand your question, sir. Is it the charge that we are levying against the Navy, or our rental payments directly to the lessor?

Senator BYRD. The rental payments directly to the lessor.

Mr. KALLAUR. We will have to provide that for the record, sir. The costs of each of those leased buildings vary substantially, there have been some renewals. The rentals were incurred in different years.

Senator BYRD. What was it in 1980 on a square-foot basis?

Mr. KALLAUR. Senator I think we are going to have to provide that for the record, I am sorry.

Senator WARNER. Mr. Byrd, if you would defer. We have these answers right here. I think it is important that they go into the record.

At this point I would like to call on Mr. Smith to provide that for the record.

Senator BYRD. Fine.

Senator WARNER. Because it is a fascinating story.

Mr. SMITH. Mr. Chairman, the GSA has provided us in advance of this hearing with information on that.

Senator BYRD. The witnesses do not appear to have it, but we have gotten it in advance. That is good. [Laughter.]

Mr. SMITH. I can give you an example, Senator Byrd. For the Crystal City Plaza Building No. 6, the cost of the lease is $5.81 per net square foot, that is fully serviced. The SLUC charges for that building in 1982 are $10.73 a foot, and in fiscal year 1983 the SLUC charge is estimated to go to $18.55 per square foot.

So, the Navy will pay to GSA $10 in 1982; $18 in 1983, and GSA costs to the owner of the facility are $5.81 a foot. Now, the difference in that amount will go into GSA's building trust fund.

Senator BYRD. So, the cost to the Government is not the $10 per square foot, it is $5 per square foot.

Mr. SMITH. Yes, sir, that is accurate.

Senator BYRD. The other $5 goes to another part of the Government.

Mr. SMITH. That is right.

Mr. GALUARDI. No, sir, there is only one fund. This system is set up by Congress, this is not something that we administratively have instituted.

Senator BYRD. I am not trying to be critical of you, I am just trying to understand you.

Mr. GALUARDI. I understand everybody has difficulty with it, including ourselves.

The purpose of the fund is, as I stated originally, that the agency has to show what it's cost is of space as reflected at today's costs.

Senator BYRD. That is not the point I am making. The point I am making is—and you may correct me if it is not accurate—judging by the figures read by the staff, the lessor was paid $5 a square foot—I am using round figures now. Yet, the Navy paid $10 per square foot because that went over to your agency.

Mr. GALUARDI. That comes to GSA, yes.

Senator BYRD. That $5 went over to your agency. It stayed within the Government.

Mr. GALUARDI. It is in the Government, yes, sir.

Senator BYRD. So, it costs the Government $5 per square foot, not $10 per square foot.

Mr. GALUARDI. And you have to understand, Senator, that I have other locations in which I have to pay more in rent than I am collecting from some of the agencies.

Senator BYRD. I understand that.

Mr. GALUARDI. So, I do have a profit-loss system.

Senator BYRD. Let me ask you this—or maybe I should ask the Navy this——

Senator WARNER. I do not see Mr. Cox. Is he still here?

Senator BYRD. Well, let me ask you, then.

Senator WARNER. The admiral is still here. Excuse me, Admiral, perhaps you could join us.

Senator BYRD. In determining whether to move or not to move, and the costs involved, did the Navy take the $10 per square foot, or the $5 per square foot as the cost of the present facility?

[The information follows:]

Navy's revised economic analysis was developed on the basis of cost to Government, not cost to Navy. Thus, in the case of Crystal Plaza Building No. 6, which was cited as an example, Navy used $5.81 per square foot as the present cost to Government for that building, or in round numbers, $5 per square foot.

Mr. GALUARDI. When I heard them testifying, they were stating as though it were the Government's payment to the lessor as the value that they use in their economic calculations. I think he just reconfirmed that.

Senator BYRD. They did not take the figure that they pay you.

Mr. GALUARDI. No; that is what they told me.

Senator BYRD. Is that correct?

Rear Admiral TAYLOR. That is correct.

Senator BYRD. Well, then does your figure correspond to the figure read by the staff?

Rear Admiral TAYLOR. We will have to provide that for the record, sir.

Senator WARNER. Our calculations show it does.

Senator BYRD. I think we have more information than the witnesses have.

Senator WARNER. We have done a lot of careful study. The Navy, under the existing lease in Crystal City, will pay $5.81 to the GSA. It is a $5.81 lease through 1985. That is a pretty good lease.

Mr. GALUARDI. It is very good.

Senator WARNER. Then, really the threshold question is, when that lease expires in 1985, what are the renewal options?

Mr. GALUARDI. Which one was that, Senator? Which building was it?

Senator WARNER. Crystal Plaza Building No. 4.

Mr. GALUARDI. It expires, as you said, in February 1985. It is $5.81. We have no options to renew.

Senator WARNER. That is correct.

Now, that $5.81 through 1985 is a very good price now; is it not?

Mr. GALUARDI. Yes, sir.

Senator WARNER. What is the average price today?

Mr. GALUARDI. We would expect——

Senator WARNER. No; not what you would expect. What are other people paying today?

Mr. GALUARDI. New lease space that we are renting right now is running in the range of $12 to $14 a square foot, fully serviced.

Senator WARNER. This is just about a third of what is in the marketplace today.

Mr. GALUARDI. That space is downtown Washington, D.C., that I gave you.

Senator WARNER. The SLUC rate on that same $5.81 goes up considerably, it is $10.82. What would it be in 1985, probably?

Mr. GALUARDI. The SLUC?

Senator WARNER. Yes.

Mr. GALUARDI. That would be very difficult to project at this point, but it was supposed to be representing what is the commercial cost of

space at that point. So, I would have to project that it is going to be in the order of $14, $15 a square foot.

Mr. KALLAUR. Senator Warner, it would be useful to try to keep in mind two basic ideas. The first one is that there is a long-term commitment on the lease which fixes the dollar rate at a specific dollar figure over the long term.

We are dealing with the standard level user projection, which is a congressionally mandated fair market appraisal as though—and this is the artifice—as though that rent were negotiated and the deal consummated that year. So, the comparisons unvariably will differ very dramatically, particularly in an inflationary market like we have been in.

Senator BYRD. Let me ask you this: You say you paid in 1981 to the lessor $5.81 per square foot.

Mr. GALUARDI. Yes, sir.

Senator BYRD. And that is for how many square feet?

Mr. GALUARDI. Crystal Plaza No. 6 has 65,000——

Senator BYRD. The total amount of space that they have, that they will vacate if they move to the Navy Yard.

Mr. GALUARDI. They have 2½ million, approximately.

Senator BYRD. Two and one-half million.

Mr. GALUARDI. But, sir, they are in a series of different buildings, all of which have different rental rates.

Senator BYRD. I understand that. I am trying to get the total, though. So, you are dealing with 2½ million square feet; is that right?

Mr. KALLAUR. Yes, sir.

Mr. GALUARDI Yes, sir.

Senator BYRD. So, you paid $5.81 for 2½ million square feet?

Mr. GALUARDI. No, no. That is why I was telling you, sir, that the Navy is in a whole series of different buildings, all of which have different rental rates. I could read you some of the rental rates if you just want to hear an average of them.

Senator BYRD. No; I do not want that. I was under the impression from what the staff said and what you confirmed, that in 1980 you paid $5.81 per square foot. Now, my question is, How many square feet are involved?

Mr. KALLAUR. It is 56,000 square feet of what the——

Senator BYRD. We are only dealing with one building; is that it?

Mr. GALUARDI. That is correct, 56,000 square feet of the 2½ million is in that one building, on which we pay the lessor $5.81.

Mr. Cox. Sir, we have a list, which we were prepared to give to the committee during my testimony, of the amount that is currently paid by GSA on all of our leases, and the amount that we paid GSA.

We want to make it clear that our economic analysis talks about the cost to GSA, not the cost to the Navy. If it was the cost to the Navy, it would be worse.

Senator BYRD. That is a good point to clear up.

Mr. Cox. We used the cost to the Government, the cost to the GSA, not to us, to compare the status quo with what it would cost us if we moved.

Senator BYRD. I see. That clears up a point.

Mr. Cox. We can provide that data for the record if you like, and we will.

Senator BYRD. That would be fine.

Mr. Cox. Basically, for our 2.5 million net square feet, the lease costs the GSA approximately $18,800,000 total. We pay GSA approximately $24,200,000. We will provide the breakdown for the record.

(The information was not received in time for printing.)

Senator BYRD. Now, you do not pay anything for the gross space, then.

Mr. Cox. On most of the leased space, we do not pay the gross.

Mr. GALUARDI. When we lease, we lease by the net. But when we build, we build by the gross.

Senator WARNER. Forgive any personal reference to your absence, Mr. Cox, obviously you slipped out for a moment.

The point I raised is, it looks to me as though the Department of Defense is contributing a considerable amount of money to this trust fund. Under the GSA eligibility rules you are legally eligible, but under their prioritization you will not get any money. That is what troubles me.

Mr. Cox. Yes, sir, but we do not control those priorities.

Senator WARNER. I understand that.

Mr. Cox. The other committees control the priorities. We pay into it as we are required to do, and other oversight committees control the priorities.

Senator WARNER. But you see that differential.

Mr. Cox. Yes, sir.

Mr. GALUARDI. Mr. Chairman, there are locations across the United States in which these other projects have certain priorities, in which the Defense Department is located. So, when we do build a building in Columbia, S.C., it may have Defense activities in it, those that are associated with whatever Defense needs within that general area.

Senator WARNER. It may be coming out of the Navy's books but showing up on another military department's books by virtue of space elsewhere in the United States; is that it?

Mr. Cox. If I may interject, nearly every Federal courthouse in the country has a recruiting office.

Senator WARNER. Yes.

Mr. Cox. But we do not establish those priorities.

Mr. GALUARDI. It is a mix of who gets satisfied by the funds that we receive from all the agencies.

Senator WARNER. But under this particular situation the proposal to move from Crystal City to the Navy Yard, it would not be eligible.

Rather, it is eligible but under the priorities it will not get any of the trust fund money.

Mr. GALUARDI. That is correct.

Senator WARNER. Because in your judgment the Navy is now properly housed.

Mr. GALUARDI. We have worse conditions for other agencies elsewhere.

Senator WARNER. Looking at overall Government requirements, the Navy is adequately housed at the moment where it is.

Mr. GALUARDI. Correct, sir.

Now, Mr. Chairman, we might say that with the changing situation, up until this administration came in, GSA's main problem was

that all agencies wanted more space and therefore we were on the look to provide an increasing amount of space for agencies.

With what is happening now, there is a possible decreasing requirement for space. We have to re-evaluate everything that is going on and see what the impact of all that will be. Of course, our thrust will be that we will use vacant Government-owned space first to put the agencies back into it. If we have vacant lease space which is at a good prime rental, we will use that up until the opportunity disappears on it.

If we have to, finally, to buy out of some rentals if we are stuck with some leases that because of the decreasing requirements of the Federal Government we have to get rid of, that space.

Senator WARNER. Presuming under the Reagan administration decreasing requirements for Government space, there may be some space available to meet this particular Navy requirement, other than the construction or renovation of the Navy Yard.

Mr. GALUARDI. I would not say within Washington, D.C., it seems so to us in the foreseeable future, right now.

Senator WARNER. Even with the proposal for the Departments of Energy and Education?

Mr. GALUARDI. The Departments of Education and Energy, there are certain aspects of those agencies that are disappearing, but there are some basic functions still remaining within those agencies that are not going away. Therefore, the amount of space becoming available is not the total that they occupy.

As you are aware, the Navy and the Defense Department were in the Forrestal Building and we relocated everybody out of that to put Energy in there. They are located in that building and several other buildings around the Washington, D.C. area. They would probably not be willing to give up the Forrestal Building immediately.

Senator BYRD. I have just one question for clarification. Mr. Cox, as I understood you a moment ago, the Navy in 1980 paid $18 million for 2½ million square feet of net floor space.

Mr. Cox. Closer to $19 million.

Senator BYRD. Closer to $19 million, for 2½ million.

Mr. Cox. Yes, sir.

Senator BYRD. Thank you very much. I have no further questions.

Senator WARNER. There are several that I want to ask to clear up a policy question.

The Navy has indicated that GSA has offered them land and buildings in the Southeast Federal Center, contiguous to the Navy Yard, to use for the Navy's plan. That is the case, correct?

Mr. GALUARDI. That is correct.

Senator WARNER. How can you give that land and office space to another Federal agency in a major metropolitan area? I thought you were the sole Federal manager of office space by law.

Mr. GALUARDI. Well, the Public Buildings Act of 1959 has a little quirk in it. It says, "Yes, we do have all office space and storage space." However, it excludes certain activities from the jurisdiction of the Public Buildings Act, for Veterans' Administration hospitals and others; but when it gets to the Defense Department it says, "Things that are on a post, camp, fort, and stations."

Now, there is some question as to what that is, but the land is contiguous to whatever it is, a fort or a station, and there is some question of jurisdiction. I am not too sure that between the Department of Defense and GSA we have come to some resolution as to what will happen, who will operate, and things like that.

Senator WARNER. Maybe we should bring to the attention of the Secretary of Defense this quirk, and therefore he can give the Pentagon back to the Department and stop charging all this excess rent.

Mr. GALUARDI. No, that one is pretty clear, that is not a "post, camp, fort or station." That is what we call all purpose office building.

[Laughter.]

Senator WARNER. I will put an amendment on the next rider here to call it Fort Pentagon.

[Laughter.]

[Questions submitted by Senator John Warner, answers supplied by General Services Administration:]

Give us your forecast SLUC rates for the Pentagon for as far into the future as you can see.

Answer not received in time for printing.

GSA COSTS FOR CURRENT NAVY FACILITIES

Would you provide for the record the current SLUC charges, and any increases that you can forecast, that the Navy now pays for space that it wants to give up in its move to the Navy Yard.

Answer not received in time for printing.

For these same buildings, again please provide for the record the total GSA costs for each. What I want to be able to show is whether GSA is receiving more or less from the Navy in SLUC charges than it is spending to lease, operate and maintain these buildings.

Answer not received in time for printing.

GSA BUILDING TRUST FUND

It appears to me that GSA makes a tidy "profit" from DOD SLUC payments. I realize that this "profit" goes into your Building Trust Fund to pay for renovations and new construction. Can you tell us (or provide for the record) how much "profit" from DOD SLUC charges has gone into the Building Trust Fund for the past five years?

Answer not received in time for printing.

In deciding how to spend your Building Trust Fund, does DOD "profit" go back into renovation and construction of new facilities for DOD or does GSA decide how to spend the money regardless of the source?

Answer not received in time for printing.

Have you done any new construction using the Building Trust Fund for DOD in the past five years? When was the last time you built anything for DOD?

Answer not received in time for printing.

How much money is in your Building Trust Fund now?

Answer not received in time for printing.

How much money is spent from that Trust Fund each year? For what?

Answer not received in time for printing.

Why can't the building that the Navy wants in the Navy Yard be built or renovated by GSA using the Building Trust Fund?

Answer not received in time for printing.

IMPACT OF NAVY PLANS ON GSA PROGRAM

How many square feet of office space does GSA control in the National Capital Region (NCR)? How much is leased versus government-owned?

Answer not received in time for printing.

I am sure your leasing program is dynamic, but can you give us some feel for the impact that the Navy's proposal will have on your overall office space management responsibilities in the NCR?

Answer not received in time for printing.

IMPACT OF PRESIDENT REAGAN'S BUDGET CUTS

I am sure you are familiar with President Reagan's most recent budget reduction proposals. Don't you feel that with the major reductions in Federal agencies that he is proposing, that there should be a moratorium on the building of any new Federal office space in the NCR?

Answer not received in time for printing.

Surely if the Departments of Energy and Education are disestablished, there will be a large amount of office space freed up. Can you tell us about how much—how much new office space did you have to acquire when those two departments were established?

Answer not received in time for printing.

Senator WARNER. Senator Byrd and I have to proceed to an AWACS hearing, so we will now call on our next witness. If you gentlemen would just stay in place, we will bring up the next witness because this is a panel discussion and it is very helpful to have a little by-play back and forth.

Thank you, Mr. O'Neill for joining us this morning. If you would identify yourself and give us a brief résumé of your professional expertise. Without objection, your prepared statement will appear in the record as if read.

[The prepared statement of John T. O'Neill follows:]

PREPARED STATEMENT OF JOHN T. O'NEILL, EXECUTIVE VICE PRESIDENT, BUILDING OWNERS & MANAGERS ASSOCIATION, WASHINGTON, D.C. REGIONAL CHAPTER

Mr. Chairman, we have been requested to provide your committee with industry data on construction costs, operating costs and marketplace information regarding commercial office space in the Washington area.

Our Association presently has, in membership, 30,000 million square feet of office space and 265,000 apartment units in the Metropolitan Washington area. This Association was founded in 1933 and has continuously operated as a non-profit 501–C–6 organization. We gather various types of statistics regarding operating costs, vacancy surveys, absorption rates and wage and hour studies on industry employees which are published annually. Copies of our studies are attached.

PRESENT MARKET CONDITIONS: BOMA STUDIES

General office space per employee averages: Washington, D.C. equals 247 square feet; Mid Atlantic Area equals 225 square feet.

Special purpose space for conference rooms, audio-visual centers, food service, etc., would be added to these averages. Land costs range from $25.00 per square foot in suburban locations to over $500.00 per square foot in the District of Columbia, depending on zoning and floor area ratios allowed. Example: F.A.R. 10 means 10 square feet of office space can be constructed for every one square foot of land.

Construction costs per square foot, September 1981:

Land acquisition costs	$30
Architectural/engineering costs	6
Construction costs	60
Construction interest costs (2 yr.)	9
Total finished costs	105

Construction costs for materials and labor have been increasing at an average of 18 percent per year during the past ten (10) years. Source: "Black's Guide to Construction."

Additional cost considerations: Parking spaces at 375 square feet each must be planned for each four (4) employees if an aggressive car-pooling program is in place and public transportation is adequate. Additional land for parking space will be needed if the site does not allow 3 to 4 levels of underground parking, i.e. surface parking. Another cost factor is interior design and finish are required by the occupants. This cost can range from $5 to $10 per square foot for partitioning, floor coverings, wall finishes, window coverings, etc.

Cost of money, mortgage financing. As of September, 1981 construction period interest (2 years) is 20 percent and permanent financing at variable rate for 25 years will average 18 percent constant. Example: A 16 percent fixed interest rate for 25 years will cost approximately $13 per square foot to service.

Building operating costs, 1980: A sample of (100) representative buildings in the Metropolitan Area reported operating costs by category of expense to AOBA in 1980. Operating costs as a percentage of gross income averaged $4.82 per square foot. The mid 50 percent range of costs indicated a low of $3.74 per square foot to a high of $5.21 per square foot. Property taxes and energy costs were the highest components of expense faced by property owners. Operating costs have been increasing 5 percent to 8 percent per year during the period from 1973 to 1980. 1980 operating costs increased 7.7 percent over the 1979 calendar year. Source: "AOBA Experience Exchange Report."

Vacancy factors, May 1981: Our annual study of vacancy rates contains only buildings occupied for a period of one year or more. With over 15 million feet reporting the regional vacancy rate increased from 1 percent in October of 1980 to 2.21 percent in May of 1981. Virginia properties reported over 1 million square feet, reflecting a vacancy rate of 3.87 percent in existing building.

New construction and market absorption rate: At this time, a phenomenal amount of new office space is under construction and scheduled for occupancy in 1981, 1982 and 1983. Average construction time frame is 18 to 20 months from start to occupancy. The metropolitan area has been able to absorb an average of 3 million square feet of new space annually during the first 8 years of the 1970's. During the past 2 years, more than 5 million feet annually have been absorbed into the marketplace. The enclosed chart indicates that we are now building about 18 million square feet of new office space in the region. Virginia has over 6.5 million square feet under construction at this time. Many marketing experts are concerned about the region's ability to absorb all of the space under construction and planned for the period beyond 1983. The long-range development of a soft market with a significant increase in vacant space will represent a change from a sellers to a buyers market by 1983 or early 1984. With significant reductions in federal spending and numbers of government employees, plus high interest rates, a market downturn is strongly indicated.

With regard to rental rates, 50 percent of all existing office space in the region is renting in the range from $9 to $13 per sq. foot (8 million reporting). Newly constructed space is renting in the region from a high downtown rental rate of $27.50 per square foot to the low rental rate of $14.28 per square foot in suburban Virginia. Major factors effecting rents are land costs (downtown over $500 per square foot) (suburban $25 per square foot), and of course high interest rates. Existing properties financed at yesterdays lower interest rates can offer significantly lower rental rates and maintain a competitive edge in attracting tenants. Almost all leases offered today in the marketplace include escalation clauses which pass through to the user all increases in operating costs and

property taxes, plus an inflation factor, generally 25 percent of the Consumer Price Index (CPI).

Mr. Chairman, you have, in a nutshell, a market report and some trends for the office building industry in Washington. I will be happy to answer any questions you may have. Thank you for this opportunity to provide information on this important subject.

Office space under construction in the Metro Washington Area

	Square feet
Washington, D.C.:	
Now available for occupancy	30,000
1981 fall occupancy	2,461,000
1982 occupancy	3,170,000
1983 and later occupancy	2,334,000
Total	7,995,000
Maryland: Montgomery County:	
Now available for occupancy	26,900
1981 fall occupancy	1,309,500
1982 and later	846,000
Total	2,182,400
Prince George's County:	
Now available for occupancy	4,600
1981 fall occupancy	698,000
1982 and later occupancy	491,000
Total	1,194,300
Total Maryland	3,396,700
Northern Virginia:	
Now available for occupancy	285,000
1981 fall occupancy	2,487,000
1982 and later occupancy	3,803,000
Total	6,575,000
Total office space available now and under construction	17,946,700

AOBA INFORMATION

APARTMENT & OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON
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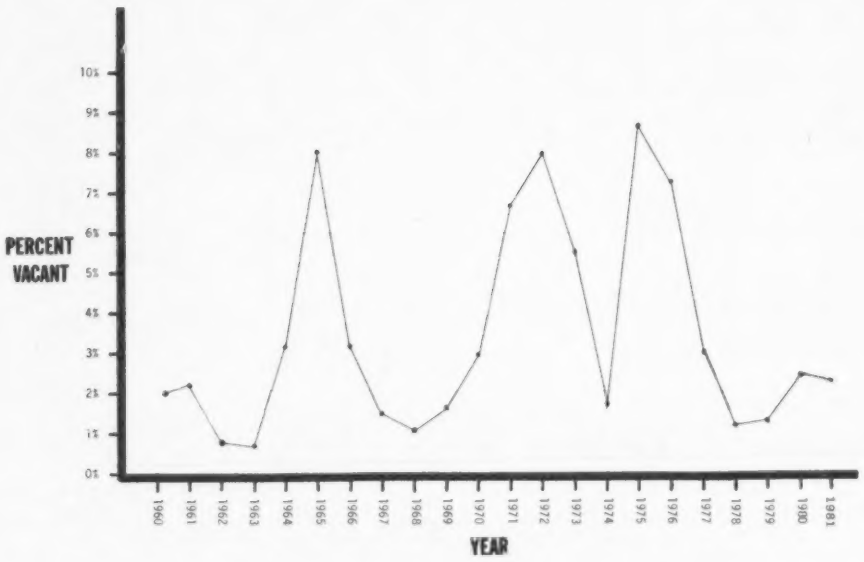
Office Space Occupancy Survey

May 1, 1981



20 YEAR VACANCY RATE FOR METROPOLITAN WASHINGTON AREA

OFFICE SPACE OCCUPANCY SURVEY

AS OF MAY, 1981

1.	Competitive Office Rentable Area*	Occupied: 97.79%	15,546,625	Sq. ft.
		Vacant: 2.21%	350,928	Sq. ft.
	Total Buildings Reporting: 135		15,897,553	Sq. ft.
1A.	How much "vacant competitive office space" listed above is "new space" on the market--built within the last 24 months and never occupied:		42,552	Sq. ft.
2.	Non-Competitive Office Rentable Area**		974,870	Sq. ft.
3A.	Occupied space reported in No. 1 which is leased for government tenancy:			
	Federal		4,465,239	Sq. ft.
	State and Local		75,996	Sq. ft.
3B.	Occupied space reported in No. 2 which is leased for government tenancy:			
	Federal		266,104	Sq. ft.
	State and Local		-0-	Sq. ft.
4.	Retail Store Occupancy within the building:			
	Occupied: 92.70%		1,291,340	Sq. ft.
	Vacant: 7.30%		101,602	Sq. ft.
5.	Competitive Office Space Activity (Reported in No. 1):			
	A. Space vacated or placed on the market at any time since October 1, 1980		260,364	Sq. ft.
	B. Space occupied or taken off the market at any time since October 1, 1980		74,758	Sq. ft.

* Competitive Office Space: In any commercial office building, the net rentable area which is potentially available to the open market.

** Non-Competitive Office Space: In any commercial building wholly owned or leased by one company, the net rentable office area which is generally permanently occupied by the owner or single-tenant lessee.

RENTAL RATE ANALYSIS--METROPOLITAN WASHINGTON, D.C. AREA

	Under $7.00	$7.00 to $8.00	$8.00 to $9.00	$9.00 to $10.00	$10.00 to $11.00	$11.00 to $12.00	$12.00 to $13.00	$13.00 to $14.00	Over $14.00	Total
Occupied:	993,317	2,367,674	385,338	2,258,748	2,680,924	956,695	1,879,386	1,464,869	2,559,674	15,546,625
	99.28%	99.21%	99.23%	98.25%	98.34%	99.38%	99.49%	97.81%	93.17%	97.79%
Vacant:	7,225	18,900	3,000	40,234	45,345	6,000	9,721	32,724	187,779	350,928
	.72%	.79%	.77%	1.75%	1.66%	.62%	.51%	2.19%	6.83%	2.21%
Total:	1,000,542	2,386,574	388,338	2,298,982	2,726,269	962,695	1,889,107	1,497,593	2,747,453	15,897,553
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

OFFICE SPACE OCCUPANCY SURVEY

MAY 1968 through May 1981

Year	Report Month	No. of Office Buildings Reporting	Total Square Feet	Vacant Space	Percent Vacant
1968	May 1	99	10,945,095	123,335	1.13
	Oct 1	82	8,166,315	121,154	1.48
1969	May 1	65	7,662,249	125,916	1.64
	Oct 1	47	6,355,006	54,306	0.85
1970	May 1	72	8,301,414	241,111	2.90
	Oct 1	87	9,878,698	236,477	2.39
1971	May 1	98	11,873,550	794,750	6.69
	Oct 1	109	15,732,314	2,047,439	13.01
1972	May 1	115	17,334,849	1,375,385	7.93
	Oct 1	148	19,069,375	1,579,207	8.28
1973	May 1	186	27,063,795	1,492,230	5.51
	Oct 1	70	12,251,710	276,576	2.26
1974	May 1	97	13,339,626	236,813	1.78
	Oct 1	92	12,730,627	567,715	4.47
1975	May 1	119	13,822,428	1,186,749	8.58
	Oct 1	121	13,416,340	999,451	7.45
1976	May 1	105	12,251,918	891,931	7.28
	Oct 1	120	13,245,973	703,611	5.31
1977	May 1	111	14,026,846	427,497	3.05
	Oct 1	89	11,519,319	291,725	2.53
1978	May 1	125	15,192,058	195,463	1.29
1979	May 1	89	11,592,151	173,642	1.50
	Oct 1	108	14,985,485	235,060	1.57
1980	May 1	128	18,066,224	460,279	2.55
1980	Oct 1	137	18,177,246	175,389	1.00
1981	May 1	135	15,897,553	350,928	2.21

PERCENTAGE OF TOTAL SQUARE FEET REPORTED BY RENTAL RATE

D.C. METROPOLITAN AREA

	Under $7.00	$7.00 to $8.00	$8.00 to $9.00	$9.00 to $10.00	$10.00 to $11.00	$11.00 to $12.00	$12.00 to $13.00	$13.00 to $14.00	Over $14.00	Total
Occupied:	6.25%	14.69%	2.42%	14.21%	16.86%	6.02%	11.02%	9.21%	16.10%	97.79%
Vacant:	.05%	.12%	.02%	.25%	.29%	.04%	.06%	.21%	1.16%	2.21%
Total:	6.30%	15.01%	2.44%	14.46%	17.15%	6.06%	11.82%	9.42%	17.26%	100%

AOBA OCCUPANCY SURVEY AS OF MAY 1, 1981

RENTAL RATE ANALYSIS--DISTRICT OF COLUMBIA

	Under $7.00	$7.00 to $8.00	$8.00 to $9.00	$9.00 to $10.00	$10.00 to $11.00	$11.00 to $12.00	$12.00 to $13.00	$13.00 to $14.00	Over $14.00	Total
Occupied:	108,960	793,158	346,338	1,034,939	1,640,305	449,125	1,106,752	1,370,832	2,397,106	9,247,515
	93.78%	100%	100%	99.55%	99.41%	100%	100%	97.82%	98.69%	99.1%
Vacant:	7,225	0	0	4,637	9,675	0	0	30,548	31,779	83,864
	6.22%	0%	0%	.45%	.59%	0%	0%	2.18%	1.31%	.9%
Total:	116,185	793,158	346,338	1,039,576	1,649,980	449,125	1,106,752	1,401,380	2,428,885	9,331,379
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Total Number of Buildings Reporting for D.C.: 84
Total Number of Square Feet Reporting for D.C.: 9,331,379
Total Number of Square Feet Reported as Vacant: 83,664
Percentage of Square Feet Vacant: .09%

RENTAL RATE ANALYSIS--VIRGINIA

	Under $7.00	$7.00 to $8.00	$8.00 to $9.00	$9.00 to $10.00	$10.00 to $11.00	$11.00 to $12.00	$12.00 to $13.00	$13.00 to $14.00	Over $14.00	Total
Occupied:	884,357	1,334,272	0	985,311	985,089	301,570	672,634	94,027	0	5,257,270
	100%	100%	0%	99.09%	96.66%	98.05%	99.32%	99.74%	0%	96.13%
Vacant:	0	0	0	9,051	34,000	6,000	4,621	2,176	156,000	211,848
	0%	0%	0%	.91%	3.34%	1.95%	.68%	2.26%	100%	3.87%
Total:	884,357	1,334,272	0	994,362	1,019,089	307,570	677,255	96,213	156,000	5,469,118
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Total Number of Buildings Reporting for Virginia: 37
Total Number of Square Feet Reporting for Virginia: 5,469,118
Total Number of Square Feet Reported as Vacant: 211,848
Percentage of Square Feet Vacant: 3.87%

RENTAL RATE ANALYSIS--MARYLAND

	Under $7.00	$7.00 to $8.00	$8.00 to $9.00	$9.00 to $10.00	$10.00 to $11.00	$11.00 to $12.00	$12.00 to $13.00	$13.00 to $14.00	Over $14.00	Total
Occupied:	0	240,244	39,000	238,498	55,530	206,000	100,000	0	162,568	1,041,840
	0%	92.71%	92.86%	89.98%	97.08%	100%	95.15%	0%	100%	94.97%
Vacant:	0	18,900	3,000	26,546	1,670	0	5,100	0	0	55,216
	0%	7.29%	7.14%	10.02%	2.92%	0%	4.85%	0%	0%	5.03%
Total:	0	259,144	42,000	265,044	57,200	206,000	100,100	0	162,568	1,097,056
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Total Number of Buildings Reporting for Maryland: 14
Total Number of Square Feet Reporting for Maryland: 1,097,056
Total Number of Square Feet Reported as Vacant: 55,216
Percentage of Square Feet Vacant: 5.03%

AOBA INFORMATION

APARTMENT & OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON
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1980

EXPERIENCE EXCHANGE REPORT
OFFICE BUILDING OPERATIONS

Dear AOBA Member:

This year's Office Building Experience Exchange Report represents the basic format in our previous four years report.

Statistics giving an average and a "range of normalcy," also called the MId-50% range are used in this study. Since this statistic may be unfamiliar to some of you, we have included a detailed explanation of its source and meaning.

The basic data this year is divided by two factors to give you the most comparable data possible to be used in the analysis of your building's performance.

The two factors are:

-- Location D.C. or Suburban

-- Size Less than 100,000 sq. ft. or more than 100,000 sq. ft.

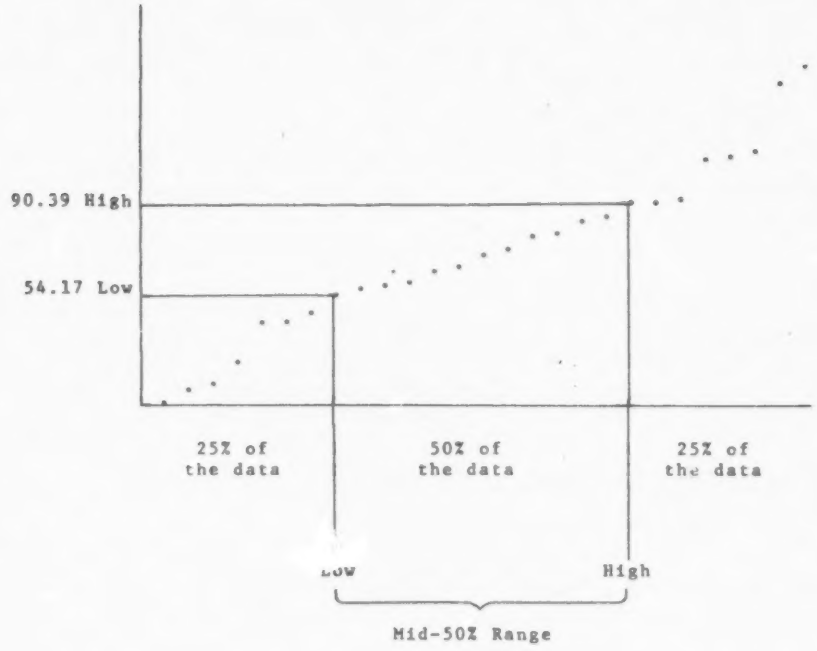
Additionally, a separate report for all electric buildings is included.

Note: Dollars per one hundred square feet of total area are used for all categories; except: office income is calculated on dollar per one hundred square feet of office rental area, commercial income is calculated on dollars per one hundred square feet of commerical rentable area. Parking income is computed per parking space.

For purposes of this survey, office space has been measured on the basis of BOMA full floor rental area.

EXAMPLE: MID-50% RANGE

Assume 27 companies reported their utility expense as plotted below:



The Mid-50% Range statistic is computed by first ordering the data values into an ascending sequence from low to high, then selecting the lower range limit as the data value of the company that is one fourth (25%) of the way up the ordered list of companies. Finally, the upper range limit is selected as the data value of the company that is three fourths (75%) of the way up the ordered list of companies. The low and high range limits are then reported as the Mid-50% Range.

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

ALL BUILDINGS

Number of Buildings Reporting - 100

		% of Gross Income	Average	Mid 50% Range
1.	Office Rent		$1030.12	$641.90-$1056.74
2.	Commercial Rent		968.29	0.0 - 1056.74
3.	Parking Income		239.69	0.0 - 405.90
4.	Gross Income	100.00%	929.69	739.30- 1145.95
5.	Total Payroll & Fringe Benefits	4.40	40.88	25.22- 51.33
6.	Char Service & Char Supplies	5.96	55.42	50.22- 66.55
7.	Gas	0.56	5.21	0.0 - 3.95
8.	Oil	0.85	7.88	0.0 - 15.07
9.	Electric	11.92	110.84	90.69- 148.92
10.	Water & Sewer	0.61	5.70	2.48- 6.77
11.	Total Elevator Expense	0.90	8.38	5.37 - 11.17
12.	Security	0.54	5.05	0.0 - 8.70
13.	Repairs, Replacements & Supplies	3.75	34.86	18.49 - 40.51
14.	Real Estate Tax	8.77	81.51	60.65 - 91.76
15.	Other Taxes & Fees	0.78	7.24	0.14 - 9.10
16.	Insurance	1.08	10.08	5.57 - 11.80
17.	Administrative Expense	5.40	50.24	34.13 - 58.09
18.	Total Operating Expenses	45.60	423.91	354.32 - 490.80
19.	Capital Improvements - Building	5.09	47.35	0.0 - 16.87
20.	Capital Improvements - New Tenant	1.15	10.70	0.0 - 2.96
21.	Total Operating Expenses & Capital Improvements	51.84	481.97	373.65 - 521.45
22.	Net Income (Before Debt Service)	48.16	447.72	323.68 - 592.90

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

D.C. - URBAN

Number of Buildings Reporting - 64

		% of Gross Income	Average	Mid 50% Range
1.	Office Rent		$ 886.00	$711.05-$1112.60
2.	Commercial Rent		1241.71	80.75- 1206.48
3.	Parking Income		217.04	0.0 - 458.10
4.	Gross Income	100.00%	1006.76	770.53- 1192.94
5.	Total Payroll & Fringe Benefits	4.48	45.15	26.36- 56.11
6.	Char Service & Char Supplies	5.46	54.97	49.65- 66.74
7.	Gas	0.33	3.35	0.0 - 2.79
8.	Oil	1.04	10.51	0.0 - 18.05
9.	Electric	11.28	113.52	93.94- 150.56
10.	Water & Sewer	0.53	5.32	1.53- 6.77
11.	Total Elevator Expense	0.85	8.58	4.97- 11.79
12.	Security	0.66	6.66	0.0 - 9.66
13.	Repairs, Replacements & Supplies	3.19	32.13	18.49- 37.02
14.	Real Estate Tax	9.06	91.21	65.37- 104.91
15.	Other Taxes & Fees	0.94	9.51	0.14- 17.05
16.	Insurance	1.14	11.43	5.63- 14.49
17.	Administrative Expense	5.06	5[illegible].43	35.45- 64.86
18.	Total Operating Expenses	44.57	448.73	380.83- 505.43
19.	Capital Improvements - Building	6.89	69.34	0.0 - 17.56
20.	Capital Improvements - New Tenant	1.31	13.16	0.0 - 2.18
21.	Total Operating Expenses & Capital Improvements	52.77	531.23	411.10- 557.69
22.	Net Income (Before Debt Service)	47.23	475.53	332.[illegible]4- 635.70

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

MARYLAND - VIRGINIA - SUBURBAN

Number of Buildings Reporting - 36

		% of Gross Income	Average	Mid 50% Range
1.	Office Rent		$1282.32	$597.54-$883.05
2.	Commercial Rent		476.13	0.0 - 716.67
3.	Parking Income		279.79	0.0 - 402.15
4.	Gross Income	100.00%	792.67	637.80- 939.05
5.	Total Payroll & Fringe Benefits	4.20	33.29	21.18- 43.37
6.	Char Service & Char Supplies	7.09	56.22	51.20- 66.20
7.	Gas	1.07	8.52	0.0 - 11.63
8.	Oil	0.40	3.21	0.0 - 0.11
9.	Electric	13.38	106.07	79.19- 148.47
10.	Water & Sewer	0.81	6.42	3.71- 6.69
11.	Total Elevator Expense	1.01	8.03	5.87- 9.82
12.	Security	0.28	2.18	0.0 - 4.27
13.	Repairs, Replacements & Supplies	5.01	39.72	18.84- 48.35
14.	Real Estate Tax	8.11	64.25	57.99- 72.77
15.	Other Taxes & Fees	0.41	3.22	0.07- 5.05
16.	Insurance	0.97	7.67	5.24- 10.08
17.	Administrative Expense	5.17	41.01	32.22- 51.08
18.	Total Operating Expenses	47.91	379.80	330.73- 428.22
19.	Capital Improvements - Building	1.04	8.26	0.0 - 8.37
20.	Capital Improvements - New Tenant	0.80	6.33	0.0 - 5.49
21.	Total Operating Expenses & Capital Improvements	49.75	394.39	356.07- 443.87
22.	Net Income (Before Debt Service)	50.25	398.28	321.58- 500.56

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

BUILDINGS OF LESS THAN 100,000 SQUARE FEET

Number of Buildings Reporting - 41

	% of Gross Income	Average	Mid 50% Range
1. Office Rent		$805.49	$583.95-$1070.55
2. Commercial Rent		566.72	0.0 - 1053.45
3. Parking Income		131.16	0.0 - 180.69
4. Gross Income	100.00%	929.81	646.70- 1174.99
5. Total Payroll & Fringe Benefits	4.25	39.51	12.73- 58.60
6. Char Service & Char Supplies	5.22	48.58	26.48- 69.15
7. Gas	0.94	8.78	0.0 - 16.24
8. Oil	0.54	5.04	0.0 - 0.0
9. Electric	11.92	110.85	58.12- 149.12
10. Water & Sewer	0.75	6.96	2.04- 8.44
11. Total Elevator Expense	0.80	7.45	4.05- 10.69
12. Security	0.49	4.59	0.0 - 2.86
13. Repairs, Replacements & Supplies	4.44	41.30	18.46- 46.36
14. Real Estate Tax	9.43	87.71	58.51- 111.91
15. Other Taxes & Fees	0.60	5.59	0.0 - 3.05
16. Insurance	1.22	11.39	3.49- 15.14
17. Administrative Expense	5.72	53.15	31.08- 64.49
18. Total Operating Expenses	46.51	432.43	323.56- 535.96
19. Capital Improvements - Building	10.53	97.94	0.0 - 8.93
20. Capital Improvements - New Tenant	1.71	15.87	0.0 - 4.19
21. Total Operating Expenses & Capital Improvements	58.75	546.24	333.66- 605.86
22. Net Income (Before Debt Service)	41.25	383.57	271.81- 601.23

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

BUILDINGS OF GREATER THAN 100,000 SQUARE FEET

Number of Buildings Reporting - 59

		% of Gross Income	Average	Mid 50% Range
1.	Office Rent		$1182.40	$664.99-$1053.43
2.	Commercial Rent		1245.23	26.70- 1146.54
3.	Parking Income		309.58	40.78- 419.17
4.	Gross Income	100.00%	929.60	744.32- 1064.12
5.	Total Payroll & Fringe Benefits	4.50	41.83	30.51- 49.49
6.	Char Service & Char Supplies	6.47	60.17	53.63- 66.50
7.	Gas	0.29	2.74	0.0 - 2.21
8.	Oil	1.06	9.85	0.0 - 17.80
9.	Electric	11.92	110.83	94.82- 149.35
10.	Water & Sewer	0.52	4.83	2.42- 6.24
11.	Total Elevator Expense	0.97	9.03	6.11- 11.64
12.	Security	0.58	5.36	0.30- 8.80
13.	Repairs, Replacements & Supplies	3.27	30.39	18.51- 36.76
14.	Real Estate Tax	8.30	77.20	60.55- 88.98
15.	Other Taxes & Fees	0.90	8.39	0.19- 14.11
16.	Insurance	0.99	9.17	6.14- 11.18
17.	Administrative Expense	5.19	48.21	35.93- 57.57
18.	Total Operating Expenses	44.97	418.00	357.65- 476.14
19.	Capital Improvements - Building	1.31	12.20	0.0 - 18.48
20.	Capital Improvements - New Tenant	0.76	7.11	0.0 - 3.54
21.	Total Operating Expenses & Capital Improvements	47.04	437.31	377.85- 491.93
22.	Net Income (Before Debt Service)	52.96	492.30	383.48- 591.33

AOBA OFFICE BUILDING EXPERIENCE EXCHANGE

ALL ELECTRIC BUILDINGS

Number of Buildings Reporting - 25

		% of Gross Income	Average	Mid 50% Range
1.	Office Rent		$1655.54	$822.33-$1090.27
2.	Commercial Rent		798.26	14.87- 1201.34
3.	Parking Income		393.24	36.02- 600.85
4.	Gross Income	100.00%	968.13	844.13- 1166.55
5.	Total Payroll & Fringe Benefits	3.62	35.05	23.76- 46.36
6.	Char Service & Char Supplies	5.72	55.38	52.09- 61.34
7.	Gas	0.15	1.45	0.0 - 0.02
8.	Oil	0.09	0.90	0.0 - 0.0
9.	Electric	14.81	143.36	127.77- 159.57
10.	Water & Sewer	0.54	5.19	2.08- 6.33
11.	Total Elevator Expense	0.84	8.16	6.16- 10.35
12.	Security	0.60	5.83	0.36- 8.89
13.	Repairs, Replacements & Supplies	2.60	25.16	16.56- 26.30
14.	Real Estate Tax	8.70	84.18	65.12- 92.74
15.	Other Taxes & Fees	0.49	4.72	0.54- 8.45
16.	Insurance	0.91	8.80	5.53- 11.67
17.	Administrative Expense	5.41	52.34	34.56- 60.30
18.	Total Operating Expenses	44.47	430.52	399.95- 479.83
19.	Capital Improvements - Building	0.65	6.10	0.0 - 12.27
20.	Capital Improvements - New Tenant	0.80	7.71	0.0 - 4.69
21.	Total Operating Expenses & Capital Improvements	45.90	444.33	418.59- 488.24
22.	Net Income (Before Debt Service)	54.10	523.80	436.17- 660.30

STATEMENT OF JOHN T. O'NEILL, EXECUTIVE VICE PRESIDENT, APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

Mr. O'NEILL. Mr. Chairman, my name is John O'Neill, I am the executive vice president of the Apartment and Office Building Association of Metropolitan Washington. I am also chairman of one of the divisions of the Building Owners & Managers Association International, our National Office Building Trade Association, and I am on the executive committee.

I have been in the real estate business 35 years. I have built buildings, I have managed them for other people, I have owned them, and I have been representing their interests legislatively and as a trade association executive now for 12 years.

My testimony this morning concerns market conditions and operating costs that are of interest to the committee. I have submitted our testimony, copies of our occupancy survey for office space; copies of our 1980 operating cost studies on what it costs to run buildings in Virginia, the District, and all through the metropolitan region.

There are some things that I think the committee ought to be aware of as it concerns market conditions. The general office space usage per employee by any employer occupying space in the Washington, D.C., area is now averaging 247 square feet per person on payroll. In the mid-Atlantic region, from Virginia all the way to the north and New York area, the average is 225 square feet per person in general office usage. So that the committee can by the number of employees begin to think in terms of what kinds of space needs there are, and how to arrive at those conclusions.

When one talks about general office space we do not include conference rooms, audiovisual centers and food service facilities, which would have to be added to these averages of square footage per employee.

In the District of Columbia and the suburban surrounding areas, land costs today are from $25 per square foot in suburban locations to over $500 per square foot in the District of Columbia, depending entirely on zoning and floor area ratios allowed. An example of what floor-area ratio means, it means that an FAR of 10 on a zoning map will give you 10 square feet of office space for every foot of land, a square foot of land that you acquire.

In 1981, September, our cost to construct office space—the next chart will deal with it—it will cost $30 per square foot for land acquisition cost. It will cost $6 a 23-square foot for architectural engineering or what we call 24 "soft costs." It will cost $60 a square foot for hard construction costs, and the construction interest cost during the 2-year period a building is under construction will add $9 per square foot to the figure. So that it will cost the private sector to build an office building today $105 per square foot. Of course, that cost is changing constantly.

I might note for the committee that construction costs for materials and labor have been increasing at an average of 19 percent per year for the past 10 years. I do not see any reason to believe that trend will not continue.

Now, there are some soft spots in the market. For example, many contractors might be willing at this point in time to bid low for jobs because of the increasing lack of work in the construction area.

There are other cost considerations that must be taken into the planning process. For example, each parking space required will require 375 square feet of land. You must plan for a minimum of at least one parking space for every four employees you are going to have on the site. That is assuming that an aggressive car-pooling program is in place and public transportation is adequate at the site. If it is not, you have to plan on more parking, one for every three employees, for example—one parking space for every three employees. But you need 375 square feet of land for every parking space.

A point that I made in my testimony in regard to the Navy Yard is that you will need a substantial amount of land for parking space because I do not believe the site will allow three to four levels of underground parking unless you are going to park only submarines in it.

The cost factor that we also must add to this issue is the interior design and finish of a building. Now we build the building at $105 a square foot and you cannot live in it yet. You have to begin thinking now in terms of partitioning, setting out the space for various types of tenant needs; putting in the floor finishes, the painting, the wall finishes, the draperies, the covering of windows, et cetera. These costs will range anywhere from $5 to $10 per square foot, depending on how rich the tenant wants the space to look.

Generally, in some cases in a soft market, the owners of buildings are willing to offer an allowance of anywhere from $1 to $1.50 per square foot toward those interior finish costs, toward those partitions, and those doors, and that private office space versus the open secretarial areas. Those are other factors that have to be looked at in the process.

I think the key issue today as far as cost of producing office space is the cost of money. As of September 1, 1981, construction period interest—which is a 2-year period generally—is 20 percent-plus points, and permanent financing now available at the marketplace at a variable rate for 25 years, we are projecting, will average an 18-percent constant interest rate.

One example I have put in my testimony is, the Treasury Department is currently paying about 16 percent in the marketplace to attract funds for Government bonds. If you use the Treasury's cost of money today you must add $13 per square foot of office space to service or repay that debt. So, you have a $13 hidden cost per square foot in all of these projections, the cost of money and the replacement of money in the Treasury.

Building operating costs in 1980, which is the last year for which we have actual operating costs, a sample of 100 representative buildings is taken every year by our association, has been done since 1930. We study operating costs by category of expense. Many of the practitioners in the industry use our studies as benchmarks on which they can analyze the cost of running their buildings, and whether they are in or out of synch with the general run-of-the-mill property.

For example, operating costs is a percentage of gross income average $4.82 per square foot of office space, rentable office space, in 1980.

So, it is costing us almost $5. We use a mid-50-percent range in our statistical studies and we show the buildings in the mid-50-percent

range where we take all the buildings and knock off the 25 percent at the top and 25 percent at the bottom, and we see a range of operating costs from a low of $3.74 a sqaure foot to a high of $5.21 per square foot. Now, these are what we call full-service buildings where utilities are included in the rent, cleaning services, et cetera.

Property taxes and energy costs are the highest components of expense faced by propertyowners. Operating costs have been increasing from 5 to 8 percent per year during the period from 1973 to 1980. In 1980 proper, operating costs increased 7.7 percent over the calendar year of 1979's operating costs.

What is the vacancy factor in the market condition for office space? Our study of May of 1981—a copy of which is enclosed—shows that our vacancy rates—and we only take buildings into these studies that are on the market and occupied for 1 year or longer so that we do not distort with new buildings coming in with vacant space. So, the building has to be seasoned for over 1 year with an occupancy operation before we will take it into the vacancy survey.

We have had a vacancy factor for the region of 1 percent—only 1 percent of our office space was vacant in 1980 and now, in 1981, in May, 2.21 percent of our space is now vacant or seeking tenancy. That is a substantial increase in a very short period, from October to May.

Virginia properties report a substantially higher vacancy factor than that in the general market and that is, sampling 1 million square feet in northern Virginia we found a vacancy factor of 3.87 percent, almost 4 percent, which is just about twice the regional rate of vacancy factor.

New construction is probably the most phenomenal thing to look at today. We have an outrageous amount of new space being built and I do not know why, frankly. It is under construction and scheduled for occupancy in 1981—some of it is already occupied—1981, 1982, and 1983.

The committee should understand that the average construction timeframe is 18 to 20 months; to start a building hole and move people into a finished product is 18 to 20 months.

The metropolitan area has been for a long time—and I have been here 12 years operating the association—has been able to absorb an average of approximately 3 million square feet of new space each year. Bring it on line, new space, get it occupied, get tenants for it. That is about what our absorption rate was up until 2 years ago. Then, 2 years ago our absorption factor jumped to 5 million feet, the region was now able to assimilate new construction of 5 million feet and fill it with tenants. So, our absorption factor is very good.

The enclosed chart that I have put before you, however, shows that we are now building about 18 million square feet in the region which appears to me to be a substantive over supply unless we find an awful lot of new tenants to come to Washington.

There are many market experts that are concerned about the region's ability to absorb all of the space under construction and additional space that is planned to start construction in this area beyond 1983.

The long-range development, in our opinion, is a soft market with a significant increase in vacant space which will represent a change from what we have considered a sellers' market to a buyers' market by 1983 or 1984. With significant reductions in Federal spending and

numbers of Government employees, plus the high interest rates that we are suffering from, a substantial market down-turn is strongly indicated.

With regard to rental rates, it is interesting for the committee to know that 50 percent of all the existing office space in this region is running a range from $9 to $13 per square foot, and that is with an 8-million-feet sample. Newly constructed space is renting in the region from a high downtown rental rate of $27.50 per square foot to the low rental rate of $14.28 per square foot in suburban Virginia.

Major factors affecting rents are, of course, land costs, downtown over $500. In fact, the last piece of land sold was at auction and sold for over $600 a square foot. Suburban land cost is, of course, substantially lower, at $25 per square foot. I do not know how many square feet are in the Navy Yard but it is extremely valuable land if you have any place to build on it, and if anything you build on it will not sink into the Potomac.

Existing properties, financed at yesterday's interest rates, can offer a substantially lower rental rate and maintain a very competitive edge in the marketplace in attracting tenants.

Obviously, a developer who has an existing property that has an 8-percent mortgage rate on it has got a substantial advantage in attracting tenants and can offer lower rental rates.

People trying to build today at 20-percent interest rates are looking at $15 a square foot just to service the mortgage. Then, when you add the $5 of operating cost, they are going to need $20, $21 just to break even before they begin to show a profit.

So, the fellow that has the old loan at the lower interest rate and the building has been up some time, is the place to look for space, particularly in large blocs.

Almost all leases today offered in the marketplace include an annual escalation clause which passes through to the users all increases in operating costs and property taxes, and generally an inflation factor is added of 25 percent of the consumer price index for constant dollar yield.

Mr. Chairman, you have in a nutshell a market report and some trends for the office building industry in Washington. I will be happy to answer any questions you may have, and I thank you for the opportunity to provide information.

Senator WARNER. We appreciate your volunteering to testify.

Would you care to give your professional opinion as to what you would do if you were the Navy today, given those projections which indicate that there could be a surplus in 1985 of rental space here in Washington?

Mr. O'NEILL. I think that anyone that uses 2½ million feet can be in the driver's seat, even in a tight market. In a soft market, they would be in an even better negotiating position.

Senator WARNER. And the projections are for a soft market in 1985.

Mr. O'NEILL. That is correct, sir.

Senator WARNER. Therefore, the Navy is in the drivers' seat in terms of getting a good dollar value.

Mr. O'NEILL. I would think so. Now, dealing through an intermediary, maybe not.

[Laughter.]

Senator WARNER. They are flanking you on either side, the intermediary.

[Laughter.]

Mr. O'NEILL. I really do not care, I do not like doing business through middlemen, I like to deal direct when I am buying a product. When I am buying a product I want to deal with the guy that is selling it. Yo do not always need a broker.

Senator WARNER. Can you give your best estimate of what the lease cost will be in the Crystal City area in 1983?

Mr. O'NEILL. I would say $14, $14.50.

Senator WARNER. And what is your best estimate of operating and maintenance costs for office space in 1983 for Crystal City?

Mr. O'NEILL. Their costs now are just under $5 per square foot. They will rise somewhere in the neighborhood of 5 to 6 percent per year for the next 2 years. So, add 12 percent to $5 and we will probably be at about $5.50, $5.65, somewhere in there, per square foot, to operate.

Senator WARNER. I would like to put the same question to GSA. What is your best estimate of the lease cost in 1983 in the Crystal City area.?

Mr. GALUARDI. Well, we have fixed terms there that run into the 1990's. So, we know what the cost is.

Senator WARNER. I am talking about new space. If you had to get new space in Crystal City in 1983.

Mr. GALUARDI. Well, the new space would be, I think, what Mr. O'Neill is talking about.

Senator WARNER. So, you concur in his figures?

Mr. GALUARDI. Yes.

Senator WARNER. What about the operating costs for 1983?

Mr. GALUARDI. He is pretty close on the operating cost because we contribute to BOMA's figures too, and our numbers are pretty near what his numbers are.

Senator WARNER. Mr. Cox, how does that estimate compare to what you use?

Mr. Cox. As I understand it, it is very close.

Senator WARNER. I look at $27 for what you are using.

Mr. Cox. In 1981?

Senator WARNER. In 1983.

Mr. Cox. What was the number given by the witnesses for 1983?

Senator WARNER. Fourteen dollars.

Mr. Cox. Fourteen plus?

Senator WARNER. Yes, and on enclosure 3 of your Economic Analysis, you are using $27.

Mr. GALUARDI. We are mixing operating costs and lease costs up here, I think.

Senator WARNER. This looks to me to be lease costs.

Mr. GALUARDI. These are lease costs, yes. I think that was what Mr. O'Neill was testifying on. On new space it takes you $20 to break even, so the $27 is in about the right range.

Senator WARNER. But he said in his estimate, you can go into the marketplace in 1983 in Crystal City and get space at $14.

Mr. GALUARDI. That is not new buildings, that may be existing buildings up for releasing.

Mr. O'NEILL. That is what I am saying.

Senator WARNER. That is what he was talking about.

Mr. O'NEILL. My point is based on the fact of renewal cost to the Navy.

Senator WARNER. That is correct, the projected renegotiated cost to the Navy in 1983, in his professional opinion in this area is $14 to $15. The documents the Navy gave us indicate $27. I am prepared to receive any contradiction to what I am stating, gentlemen.

Mr. GALUARDI. Well, you have to be careful, Senator——

Senator WARNER. I am trying to be careful.

Mr. GALUARDI. The leases that are in the Crystal City area run until 1990, 1990, 1990, 1986, and then, when I get to the short-term ones, they are not in the Crystal City area, they are over into the Ballston Tower, and I do not know where Hoffman is.

Senator WARNER. I am just talking about Crystal City now. We have a professional opinion—you concurred in it—that office space can be achieved at $14 to $15.

Mr. GALUARDI. There are a few square feet of space over in Crystal City, there is not very much. I think we just picked up 30,000 or 40,000 square feet, which is not very significant when you are talking 2½ million. They are telling me we just paid $19 for it.

Senator WARNER. Recently?

Mr. GALUARDI. Yes, recently.

Senator WARNER. I recognize that. Mr. O'Neill showed us occurrence of construction in the greater metropolitan area which in his professional judgment will yield a surplus in that timeframe in which the Navy would be up for renegotiation of the existing space.

Mr. GALUARDI. Well, you will not find much in the Crystal City area specifically. I keep saying, we have the Navy in all these National Center Buildings, Jefferson Plaza and so forth, on 20-year leases. Those 20 years are not up until 1990. We do have some other agencies over in that area and I am not sure that they are getting cuts. The Federal Government occupies most of the Crystal City area.

There are some nongovernmental offices in there, but if they were to give it up what I just said is that the little bit of space that we found available over there was $19, and if you project that 1 or 2 years forward it would be in the order of $20, $21, or $22.

Senator WARNER. But that is new space.

Mr. GALUARDI. No, that would be whatever is in existence now which is up for renewal.

Senator WARNER. Would you care to clarify that, Mr. O'Neill?

Mr. O'NEILL. Obviously, Mr. Chairman, if I need 2,000 feet for a new office for myself I cannot negotiate in the marketplace at all.

Senator WARNER. That is correct.

Mr. O'NEILL. If I need a large bloc of space it is entirely different.

Senator WARNER. In other words, the present owners of those buildings, looking at a vacancy rate of 2½ million plus square feet, they are going to be ready to do business if there is a surplus of rental space in Washington.

Mr. O'NEILL. It is my opinion that in 1983 and 1985 we are going to have an awful lot of space. If they are going to have 2½ million feet vacant over there, we are going to have a major economic disaster in the marketplace.

Senator WARNER. Right. Mr. Galuardi, would you care to rebut that?

Mr. GALUARDI. I keep saying that in the Crystal City area I do not foresee this large amount of space that Mr. O'Neill is talking about. If he is talking about Ballston Towers, which is another part of Virginia and if he is talking about—well, Hoffmann is 1989. So, the Federal Government giving up the space is not creating the large amount of space that he is talking about.

If other activities are giving it up, if the softness is coming from the associations or the private corporations, then that is something else.

The softness is probably going to come, and I agree with Mr. O'Neill. There will be a softness in the Washington metropolitan area. Where it is going to come specifically. I do not know. It may come downtown Washington, it may come in Crystal City, it may come in Hyattsville because if the Navy moves out of Hyattsville there are some buildings out there that would cause a softness in the market.

Senator WARNER. Mr. O'Neill?

Mr. O'NEILL. Mr. Chairman, under construction in northern Virginia only right now is 6½ million feet.

Senator WARNER. Is GSA aware of that?

Mr. GALUARDI. Yes, we get these reports. They come from Julian Studley and we all have the same reports. But the Government has no intent of taking that space that I am aware of. So, therefore the private market would be taking it.

Senator WARNER. I beg your pardon?

Mr. GALUARDI. The private market must be taking it.

Senator WARNER. But the projection is, there is going to be a soft market.

Mr. GALUARDI. Yes.

Senator WARNER. Mr. Secretary?

Mr. COX. Well, Senator, the thing that has occurred to me here is there are some inconsistent assumptions in the witness' testimony. He says that based upon costs to construct, $105 per square foot, we are going to have all this surplus. But then he says that because of that surplus we are going to have $14 lease costs.

I am not great at economics, but it seems to me that there is no way that you can get your return on your investment at $14 a square foot if you have a $105 a square foot cost to construct. That is just not going to happen.

So, one of those assumptions is going to have to change. If those guys are out there building buildings that are causing a surplus on the market at $105 a square foot and that is driving the competition, the lease rates down, they are either going to go out of business or they are going to quit building those buildings.

So, those assumptions just do not mesh with my understanding of what is going on in the market.

Senator BYRD. Well, Mr. O'Neill has presented some very interesting facts, it seems to me, and very important facts for this committee and for you, gentlemen, to take into consideration. If there is going to be a total of 18 million square feet of office space being built that will be available in 1982 and shortly thereafter, that is bound to have an effect, it seems to me, on the cost per square foot.

Mr. Cox. I would like to ask if anybody is giving a 30-year lease at $14 a square foot with no escalation.

Mr. O'NEILL. No one gives a lease without escalation today.

Senator BYRD. But the fact is that unless anyone can dispute these figures, the figures indicate that there is going to be 18 million square feet of additional office space available in the next couple of years.

Mr. Cox. And we have 22 million coming up for renewal. The Government should take advantage of that, I agree.

Senator WARNER. Gentlemen, we are going to have to conclude.

It seems to me that what we have today is conflicting testimony. That if what Mr. O'Neill has represented to the committee is borne out, then DOD's economic projections fall apart. You need to consider the justification of proposing this new construction or renovation in the Navy Yard in light of the opportunity to renegotiate the existing leases at what Mr. O'Neill represents as being far more favorable rates that DOD's economic projections show.

What we are going to do is to allow you to assess—each of you individually—what has been stated today, and do further analyses. I intend to hold another hearing on this subject so that you can come back and give me your reviewed thinking.

Mr. Cox. Then basically the other hearing, sir, just so I understand, is critically to analyze our economic analysis in comparing the status quo—in view of the alleged softness on the leasing market—to our construction.

Senator WARNER. That is correct. That would be a central issue.

Senator BYRD. I think also, at that point if we could get additional facts on the moving of people and what problems that might represent.

Senator WARNER. Very definitely.

Mr. Cox. Well, we want to get our environmental impact study on the road. I assume that is part of that, and we will proceed with it.

Senator WARNER. Fine. And would you advise us, Secretary Cox, at the earliest date you feel you could come forward and provide the additional information?

Mr. Cox. Can we work with your staff on that, sir?

Senator WARNER. Indeed, you may.

May I thank everyone for participating today—I think we have gained some ground. Particularly Mr. O'Neill we appreciate your volunteering to testify.

Senator BYRD. Thank you, gentlemen.

Senator WARNER. The subcommittee stands adjourned.

[Whereupon, at 11:18 a.m. the subcommittee adjourned, to reconvene subject to the call of the chair.]

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